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ABSTRACT

Although designed for participants in the National Issues Forum, this booklet, which describes the impact of the federal deficit and the federal budget process, is also useful for secondary school social studies. The six sections begin with an introduction describing why the deficit grows yearly and why it is difficult for Congress to stop its growth. The next section, "The Nation's Growing Deficit," summarizes three reasons for concern: (1) the rapid growth of the national debt, (2) the reasons for borrowing, and (3) the effect of the debt on economic recovery. "Going after Waste, Fraud, and Abuse" raises questions about whether reforming mismanagement would significantly reduce the debt. "A Guided Tour of the Federal Budget" discusses where tax money goes. "Paying the Bill for Big Government" discusses taxes and the possibility of tax increases. "The $200 Billion Question" covers the choices which must be faced if the deficit is to be reduced. Two self-administered questionnaires intended for completion before and after participating in a public forum or reading the booklet are included, as well as a list of recommended readings. (IS)

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NATIONAL ISSUES FORUM

There's a widening gap between what the federal government spends and what it takes in.

★ Is it a problem?

★ What can be done?

An open discussion for concerned citizens

$3.

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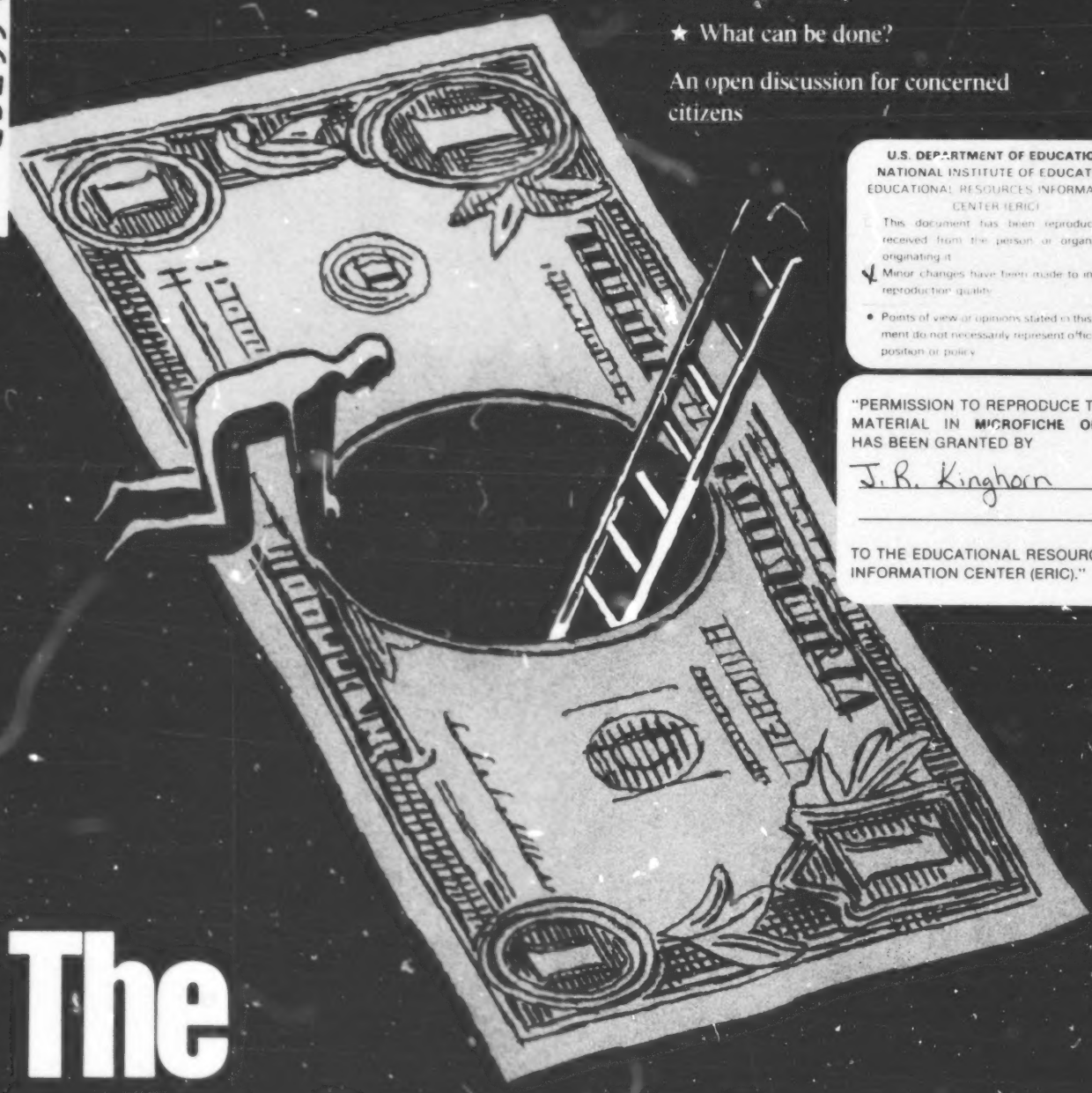

The Deficit and the Federal Budget

As you begin to read this issue book from the Domestic Policy Association, you are joining thousands of Americans who are participating, in communities all over the country, in the 1983 season of the National Issues Forum. This is a collaborative effort to achieve an ambitious goal: to bring Americans together every year to address urgent domestic issues.

This series was conceived and organized by the Domestic Policy Association, which represents the pooled resources of a nationwide network of organizations—including libraries and colleges, museums and membership groups, service clubs and community organizations. It is a nonpartisan effort that does not advocate any specific solution or point of view. Its interest is in exploring, in unbiased fashion, the costs and benefits of various alternatives.

The forums are an occasion in which people can get together to learn more about the issues and the options this nation faces, to air their differences, and to begin to identify their common ground. What took place this past year in the inaugural season of the National Issues Forum indicates how many Americans are eager to do just that.

But the National Issues Forum doesn't begin and end in those local meetings. The DPA schedules a series of meetings in which the views that emerge from these forums are conveyed to elected leaders. This past February, at the Gerald R. Ford Library in Ann Arbor, Michigan, former Presidents Ford and Carter presided over a meeting attended by a distinguished group of individuals who have helped to devise public policy and to lead the nation in recent years. They gathered together to examine what came out of last year's community forums. This coming March, the same kind of gathering will take place in Austin, Texas, at the Lyndon B. Johnson Library.

What will happen there is that once again a group of national leaders will sit down to examine what the community forums have yielded. They are interested in your considered judgment about each of the three topics for this year's forums. So that your feelings and thoughts about these issues can be conveyed in those meetings, we have provided a short "Issue Report" at the beginning and end of these books. I urge you to fill it out and mail it back to us.

We have prepared issue books like this one for each of the three topics that will be addressed in this year's forums: priorities for the nation's schools, nuclear arms and national security, and the deficit and the federal budget. These are urgent issues that have been prominent in the news. In each of these areas, new realities have to be faced, and important choices made. To address them is to raise serious questions about our values and priorities; they cannot be viewed only from the perspective of particular interests or partisan politics.

Helping citizens to engage in community discussions about what is in the public interest is the goal of the Domestic Policy Association. As the editor of these issue books, I'm honored to welcome you to this common effort.

Keith Melville

Keith Melville
Editor-in-Chief
The National Issues Forum

Domestic Policy Association
5335 Far Hills Avenue
Dayton, OH 45429

NATIONAL ISSUES FORUM

1. THE DEFICIT AND THE FEDERAL BUDGET REPORT

The Domestic Policy Association has promised to communicate a sense of your thinking on the topic of the Federal budget deficit to leaders and policy-makers, locally and at the national level. Therefore, we'd like you to fill out this short questionnaire so that we can get a "profile" of the way people here are thinking about this important issue. They are also going to be interested in the way that forums like this help us all to "think through" such complex problems.

For that reason, we'd like you to answer one set of questions *BEFORE* you talk with your fellow citizens at the forum meeting (or before you read this booklet, if you buy it elsewhere), and another set of questions *AFTER* the forum (or after you've read and thought about the booklet).

The leader at the forum meeting will ask you to hand in these question sheets at the beginning and at the end of the meeting. If it is inconvenient to do that, or if you can't attend the meeting, please send this questionnaire, together with the questionnaire at the end of the booklet, to the DPA in the enclosed self-addressed stamped envelope.

Check the appropriate box:

1. Do you believe the federal budget should be balanced every year?

   ☐ Yes
   ☐ No
   ☐ Not sure/Don't know

2. Generally speaking, would you say that today's level of government spending for our country's national defense is:

   ☐ Much too high
   ☐ Somewhat too high
   ☐ About right
   ☐ Somewhat too low
   ☐ Much too low
   ☐ Not sure/Don't know

3. In general, would you say that today's level of government spending for social programs such as Social Security and health care for the poor and elderly is:

   ☐ Much too high
   ☐ Somewhat too high
   ☐ About right
   ☐ Somewhat too low
   ☐ Much too low
   ☐ Not sure/Don't know

4. What about today's level of federal taxation? In general, and taking into consideration all the things the government does, would you say the federal taxes you pay are:

   ☐ Much too high
   ☐ Somewhat too high
   ☐ About right
   ☐ Somewhat too low
   ☐ Much too low
   ☐ Not sure/Don't know

5. Some people say that every large organization wastes a certain amount of money simply because of its size, and that not every dollar lost because of waste and fraud can be realistically recovered. How much of every dollar spent by the federal government could be recovered by better management practices?

   ☐ Less than 5 cents of each dollar the government spends
   ☐ Between 5 and 10 cents
   ☐ Between 10 and 15 cents
   ☐ Between 15 and 20 cents
   ☐ More than 20 cents of each dollar the government spends
   ☐ Not sure/Don't know

6. Some people say that because of unfair tax loopholes, the government does not collect a lot of tax money it otherwise should. How much would you estimate federal tax revenues would increase if all unfair tax loopholes were immediately closed? Would you say federal tax revenue would increase by:

   ☐ Less than 10 percent
   ☐ 10 to 20 percent
   ☐ 20 to 30 percent
   ☐ 30 to 40 percent
   ☐ More than 40 percent
   ☐ Not sure/Don't know

7. Some people say we could go a long way toward balancing the federal budget by eliminating waste and fraud in government and by closing tax loopholes. Others say that this represents wishful thinking, as Presidents and Congressmen from both parties have tried to take these steps for years with little success. How do you feel? Could we realistically go a long way toward balancing the budget by eliminating waste and fraud, and by closing tax loopholes, or does this in fact represent wishful thinking?

   ☐ Yes, it's realistic to think that these steps could go a long way toward balancing the budget
   ☐ No, this view represents wishful thinking
   ☐ Not sure/Don't know

8. Some people say that if we want to reduce the federal deficit, the only realistic choices we have are to cut spending for social programs, cut spending for national defense, raise federal taxes, or some combination of these three. In general, do you agree that these are our only real choices?

   ☐ Agree, those three options are our only real choices
   ☐ Disagree, there are other options besides those three
   ☐ Not sure/Don't know

II For each of the following statements indicate whether you agree or disagree:

	Agree	Disagree	Not Sure
9. If we limited government help to those who truly need it and cut out payments to those who don't, the budget would be balanced.	☐	☐	☐
10. The budget for national defense represents about two-thirds of total federal spending.	☐	☐	☐
11. If we were to balance the budget solely by raising income taxes, taxes for the typical American family would have to increase by more than $2,000 per year.	☐	☐	☐
12. A major cause of our current deficit is a President and Congress who cut taxes at a time when the budget was already in the red.	☐	☐	☐
13. The budget could be balanced by eliminating cost overruns, waste and unnecessary programs from the defense department budget.	☐	☐	☐
14. A major cause of our current deficit is unrealistic thinking on the part of the American people: we simply want more from the government than we're willing to pay for.	☐	☐	☐
15. A major cause of our deficit is politicians who cater to special interests and pass spending bills with little thought about where the money to pay them will come from.	☐	☐	☐
16. Our deficit now is so large that even if we *eliminated* the entire Social Security program, the federal budget would still not be balanced.	☐	☐	☐

III Check the appropriate box:

To reduce the federal deficit, I personally would be willing to:	Yes	No	Not Sure
17. Pay more income taxes	☐	☐	☐
18. Give up the tax exemption on home mortgage interest payments	☐	☐	☐
19. Spend less federal money for education	☐	☐	☐
20. Cut military spending in half	☐	☐	☐
21. Slow the rise in spending for health care for the poor and elderly	☐	☐	☐
22. Triple the corporate income tax	☐	☐	☐
23. Let interest rates rise to much higher levels	☐	☐	☐
24. Let unemployment rise sharply	☐	☐	☐
25. Spend less federal money to protect the environment	☐	☐	☐

IV For each of the following, indicate whether you agree or disagree:

I would rather live with even a very large budget deficit than:

	Agree	Disagree	Not Sure
26. Cut proposed spending for national defense	☐	☐	☐
27. Cut proposed spending for social programs such as Social Security and health care for the poor and elderly	☐	☐	☐
28. Raise income taxes on people like myself	☐	☐	☐
29. Raise the corporate income tax	☐	☐	☐

V These last few questions are for statistical purposes only:

30.
- ☐ Under 18
- ☐ 18 to 29
- ☐ 30 to 44
- ☐ 45 to 64
- ☐ 65 and over

31. What was the last grade of school you completed?
- ☐ 8th grade or less
- ☐ 1 to 3 years of high school
- ☐ High school graduate
- ☐ Some college
- ☐ College grad. or more

32. Are you registered as a Democrat, Republican, an Independent, or are you not registered to vote?
- ☐ Democrat
- ☐ Republican
- ☐ Independent
- ☐ Other
- ☐ Not registered to vote

33. What was your total family income for 1982?
- ☐ Under $10,000
- ☐ $10,000 to $20,000
- ☐ $20,000 to $30,000
- ☐ $30,000 to $40,000
- ☐ $40,000 to $50,000
- ☐ Over $50,000

34. Do you have children below the age of 18?
- ☐ Yes
- ☐ No

35. Are you male or female?
- ☐ Male
- ☐ Female

36. What is your zip code? _____

37. Which, if any, of the following DPA activities did you participate in?
- ☐ Read the booklet
- ☐ Attended a Forum
- ☐ Read the discussion guide
- ☐ None of the above

NATIONAL ISSUES FORUM

The Deficit and the Federal Budget

Prepared for the
Domestic Policy Association
by the
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THE DOMESTIC POLICY ASSOCIATION

The Domestic Policy Association is a nonprofit, nonpartisan association devoted to raising the level of public awareness and discussion about important public issues. It consists of a nationwide network of institutions — colleges and universities, libraries, service clubs, membership groups and civic organizations — that bring citizens together to discuss public issues. The DPA represents their joint effort to enhance what they already do by working with a common schedule and common materials. In addition to convening meetings each fall in hundreds of communities in every region of the country, the DPA also convenes meetings at which it brings citizens and national leaders together to discuss these issues and the outcome of community forums.

Each year, participating institutions select the topics that will be discussed in the Issue Forums. On behalf of the Domestic Policy Association, the Public Agenda Foundation — a nonprofit, nonpartisan research and education organization that devises and tests new means of taking national issues to the public — prepares issue books and discussion guides for use in these forums. The Domestic Policy Association welcomes questions about the program, and invites individuals and organizations interested in joining this network to write to: The Domestic Policy Association, 5335 Far Hills Avenue, Dayton, Ohio 45429.

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"Everyone recognizes there's some waste in government, but is there enough to matter, and can we do anything about it?"

4 **A GUIDED TOUR OF THE FEDERAL BUDGET** 18

"Nearly everyone agrees that we should cut down on what we spend. The problem is that we can't agree on where those cuts should be made."

5 **PAYING THE BILL . . . OR BIG GOVERNMENT** 24

"'Taxes,' as Justice Oliver Wendall Holmes put it, 'are what we pay for civilized society.' The question is just how much we have to pay."

6 **THE $200 BILLION QUESTION** 29

"The $200 billion deficit reflects a very simple fact: Congress has tried to accommodate more demands than the American people have paid for. Some hard choices have to be made if we're to live within our means."

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1

INTRODUCTION: A SEA OF RED INK

In October, 1981, the United States Treasury announced a remarkable milestone: the total debt of the Federal government had just passed the one trillion dollar mark. Depicting that awesome figure as "a stack of $1,000 bills 67 miles high," President Reagan took the occasion to repeat his commitment to reduce federal spending and to balance the budget by 1984. The President expressed his dismay at that "sea of red ink," and underlined the importance of taking immediate measures. "Our government must return to the tradition of living within our means and must do it now."

Whatever their disagreements about how that goal might be achieved, the American public certainly agrees about the importance of doing just that. With remarkable consistency, polls taken over the past thirty years show that most people strongly affirm the importance of a balanced budget and regard deficits as a sign of irresponsibility. Families, after all, are supposed to balance their budgets. Many people are convinced that the government should do the same. And yet what has happened over the past two years only confirms the impression some people have that government spending is out of control, and that no administration — Democratic or Republican — can deliver on its promise to balance the budget.

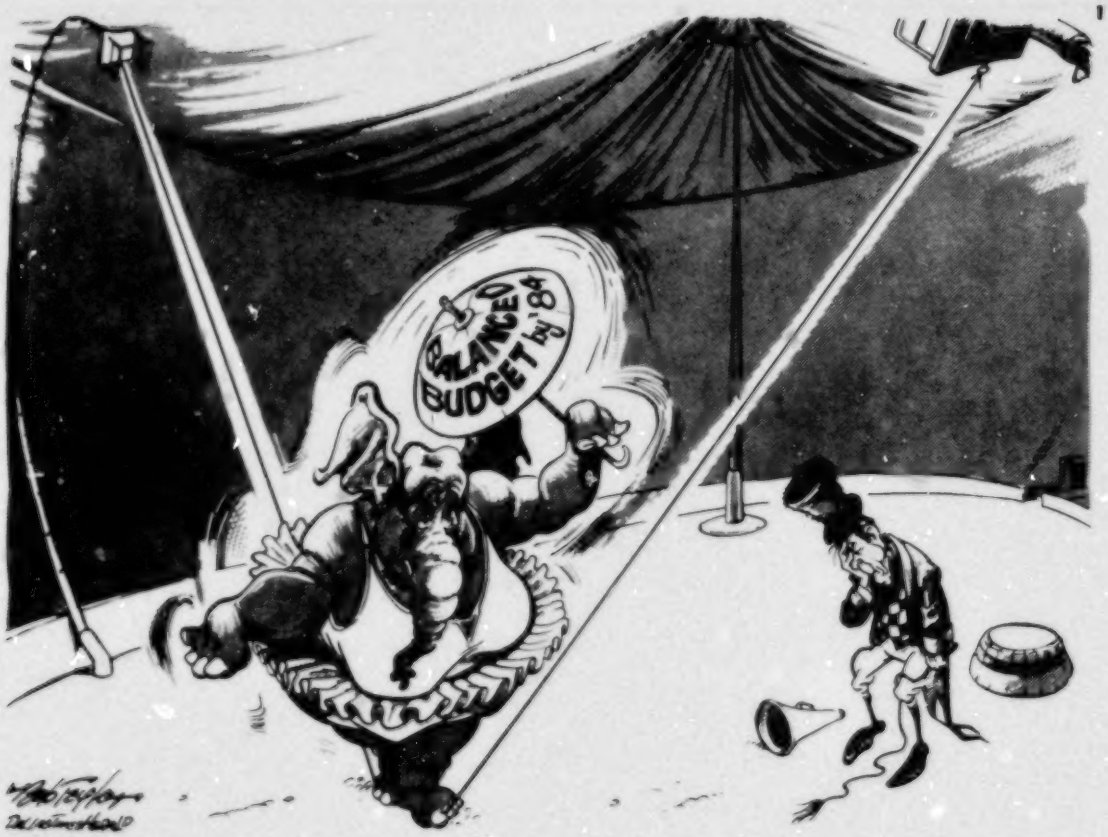
> "The gap between what the government takes in and what it spends is one of the most critical problems this nation faces in the 1980s. Closing it will pose some formidable difficulties."

THE FEDERAL BUDGET PROCESS

Consider what has happened repeatedly in recent years as the Congress has performed its yearly task of drawing up the Federal budget. Like a family's budget, the budget of the United States government is the result of a great many decisions about priorities and commitments, about how much the government will spend, and what it will take in through taxes. Those are really political decisions: decisions about what we are going to spend, where we are going to scrimp, and who is going to pay. That annual ritual — sometimes referred to as "the battle of the budget" — begins in January, when the White House submits a proposed budget. In turn, the House of Representatives and the Senate do the same. Then the untidy process of resolving the differences between them gets started. This past spring was typical. There were arguments about whether new tax measures should be passed, whether there should be any restraints on the programs that provide direct benefits to individuals, whether defense spending should be scaled down.

The cause for concern is not the wrangling that takes place between the President and members of Congress as they try to reach an acceptable compromise. Differences over spending priorities are as routine as family arguments about whether to go on vacation or buy a new car.

The real cause for concern is what results from the budget process each year. Amidst all the expressions of relief and congratulation about the fact that this drawn-out process has once again produced a resolution, it is easy to lose sight of one central



Bob Taylor, Courtesy *Dallas Times-Herald*

BOB TAYLOR
Courtesy Dallas Times-Herald

Each new administration promises a balanced budget, but still the deficit has soared.

fact: The compromise "solution" reached in each of the past few years has left a huge and growing gap between what the government takes in and what it spends. This past year, for example, the Federal government spent about $800 billion, while taking in taxes and other fees that amounted to only about $600 billion. That means that the government had to borrow $200 billion to pay its bills.

Increasingly, the American public and its elected leaders have chosen to buy now and hope that someone would pay later. While citizens and elected leaders pay lip service to the principle of a balanced budget, the gap between what the government spends and its revenues grows wider. Over the past two decades, the Federal government has run deficits in every year except one, and the size of those deficits has increased alarmingly.

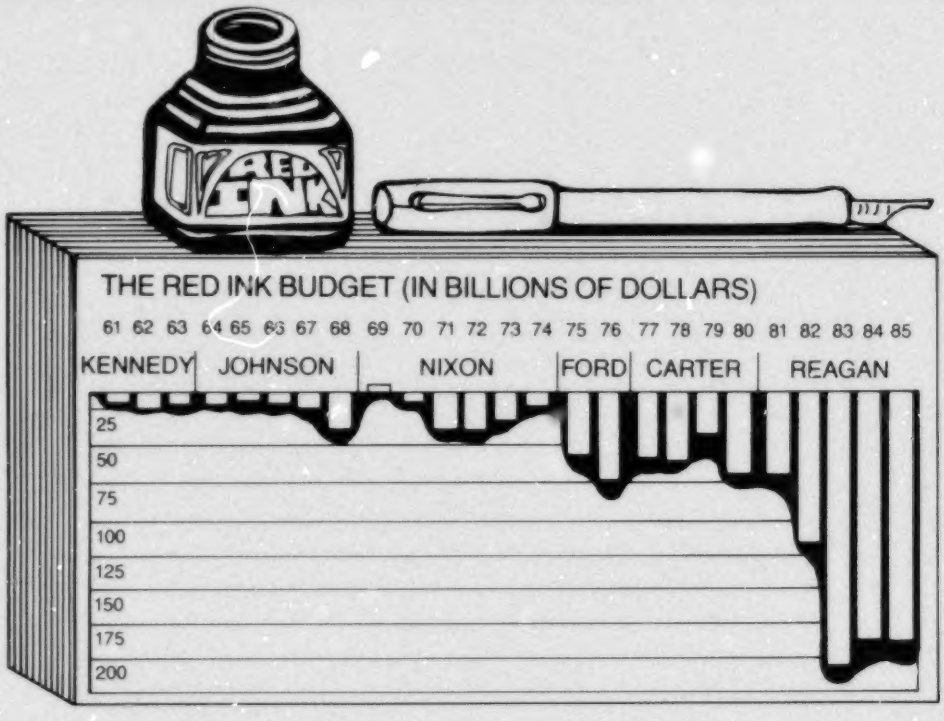
Government spending in excess of revenues would be one thing if it happened mainly during periods of economic recession when businesses and individuals pay less taxes and when government payments for welfare and unemployment benefits are unusually high. But that does not describe our situation. We now run large deficits in good years as well as bad. As Budget Director David Stockman commented this past spring during debates about the 1984 budget, the country now faces the prospect of $200 billion deficits "as far as the eye can see."

WHO'S TO BLAME?

It is easy to make accusations about where the blame for cascading deficits should be placed. But the fact is that neither Democrats nor Republicans have been able to come to grips with the problem. Each of the past four Presidents has come to office promising to trim Federal spending. Each has affirmed the importance of a balanced budget to the nation's economic well-being. Yet the problem has grown steadily worse.

President Nixon came to office in 1969 promising that he would submit a balanced budget by 1971. What actually happened was that the government went $23 billion into the red in

FEDERAL BUDGET DEFICITS AND SURPLUSES



Office of Management and Budget

"While citizens and elected leaders pay lip service to the principle of a balanced budget, the gap between what the government spends and its revenues grows wider. Increasingly, we have chosen to buy now, and hope that someone would pay later."

1971. By the time Mr. Nixon left office in 1974, more than $66 billion had been added to the nation's debt. By the end of Gerald Ford's tenure two years later, the national debt had grown by $112 billion. Jimmy Carter took office expressing concern about "constantly escalating federal expenditures." But by the time he left office, more than $150 billion had been added to the national debt. In his Inaugural address in 1981, Mr. Reagan — like each of his predecessors in the White House over the previous two decades — affirmed the value of a balanced budget and condemned "the habit of piling deficit upon deficit, and mortgaging the future." But although he took office promising to reduce the scope of government and its costs, it appears likely that more red ink will be added to the Federal budget during this administration than in any other in the nation's history. In fact, according to projections from the Congressional Budget Office, it appears that the public debt incurred over 207 years of American history will more than double in the next six years from 1983 to 1988. Like President Nixon, President Ford, and President Carter before him, President Reagan has been unable to keep a bad habit from getting worse.

It is tempting to point the finger of blame at one administration or another, at one party or the other. That kind of finger-pointing was very much in evidence this spring when the merits of various budget proposals were presented and debated. Partisan gibes were hurled back and forth, and members of each party tried to portray the other as responsible for budget-busting measures. The Speaker of the House, Democrat Thomas P. O'Neill, had harsh criticism for the administration's program and its supporters. In his words, "The Republicans are acting more like political muggers than legislators. They have failed to come up with a program to deal with the staggering deficits." The Republicans replied in kind, blaming the deficit on Democrats and their habit of being big spenders. When Mr. O'Neill proposed to reduce the deficit by raising taxes, Congressman Newt Gingrich, Republican of Georgia, replied in these words: "Think of it — liberal Democrats concerned about deficits! It is as confusing as if we were back in the 1920s and whiskey dealers came out in favor of Prohibition." That is partisan politics as usual, and it doesn't take us very far toward an understanding of the problem, or what might be done about it.

THEY CAN'T SAY NO

In an important sense, this habit of living beyond our means as a nation is a result of the contradictory demands that the American people make on the government. However strong sentiments are for balancing the budget, when it comes down to the specific measures required to do so, there is not much public

support for any of them. People want the government to spend no more than it earns. But they also feel that aid to the poor and the needy should not be reduced and that aid to the elderly cannot be cut. Most people feel that taxes are too high, and should be reduced, but at the same time they feel that the nation's military strength should be bolstered, and that spending should increase for other things as well — like improved law enforcement, education, and environmental protection.

When decisions are being made about the Federal budget, members of Congress are well aware of those contradictory demands. To understand why Congress has so consistently resorted to deficit spending, and why one President after another has been unable to deliver on his promise to balance the budget, it is useful to take a closer look at how spending decisions are made.

President Reagan once remarked that "balancing the budget is like protecting your virtue. You have to learn to say no." One reason why people are beginning to wonder whether the federal budget process is out of control is that members of Congress are under far more pressure to say yes to spending proposals than to say no, or to raise new revenues. The voices that speak most loudly on Capitol Hill are the voices that represent thousands of different groups, each of which backs some particular spending proposal. Veterans, teachers, senior citizens, defense contractors, farmers, businessmen — each of these groups and many others are represented on Capitol Hill by well-organized lobbies that are both articulate and politically visible.

When members of Congress return to their constituencies, there are constant pressures to spend — or at least not to cut back existing commitments. In March, 1980, soon after President Carter announced that he would press Congress to balance the budget, and while budget cuts were being debated on Capitol Hill, Democratic Senator Thomas Eagleton returned to his home state of Missouri, where — according to newspaper reports — he was reminded on one occasion after another how difficult it would be to make those cuts. When he arrived at the airport, a man rushed up to Eagleton to say that he was counting on him "to increase federal support for diabetic research." Soon after, he encountered an irate leader of the Missouri State Nurses Association who said that she would refuse to support the senator if he "persists in cutting the nursing aid budget." At a political gathering in Hannibal, a black minister pleaded with him not to cut the summer youth program. A building industry group applauded him for bringing hundreds of millions of dollars in Federal construction projects to Missouri, and the group's president then told a newspaper reporter that Congress would have to "do its best to see that the budgetary axe falls somewhere else." Later, in St. Louis, a Job Corps director urged Eagleton to defend Federal employment programs, and an official of the International Association of Machinists wanted to make sure that Labor Department programs didn't get cut. On his way to the airport for the return flight to Washington, Eagleton was waylaid by a member of the board of directors of a Kansas City anti-poverty program who demanded more money for their projects. Finally, as he was about to step on the plane, a man who had just returned from a pig farmers' convention urged Eagleton not to cut the pork research budget.

Neither special interests nor special interest legislation is necessarily bad. Indeed, the fact that citizens can join together to lobby their elected leaders is what democratic government is all about. Passing such special interest legislation is one of the chief ways in which Congress acts in the public interest. The problem is that there is an infinite number of good causes — and far more pressure on Congress to say yes than to say no to any one of them. When a member of Congress objects that a particular bill is simply too expensive, he is likely to be labelled by its advocates as insensitive to the needs of the people it would help. After all, this particular cause will require only a few cents or at most a few dollars of every taxpayer's money each year.

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"The habit of living beyond our means as a nation is a result of the contradictory demands that the American people make on the government."

One of the chief reasons why it is so difficult for members of Congress to say no is that groups who cry "balance the budget but not at our expense" are often in a position to punish political candidates by withholding their contributions and their votes. In the words of former Congressman Robert Giaimo, who until 1981 was Chairman of the House Budget Committee, "The people you vote against never forget you. The teacher, the nurse, the union member — they are organized and can work against you in a re-election campaign."

So when decisions are made in Washington about how much the Federal government will spend, the most prominent voices are those of people who advocate specific spending proposals, not those of taxpayers and citizens whose overriding concern is that the government should spend no more than it takes in. In effect, the deck is stacked against a balanced budget. There is unequal competition between those intensely interested individuals and groups who want Congress to pass a certain measure from which they would benefit, and all of the taxpayers who will have to foot the bill for it.

That is why Congress is biased in the direction of spending more than the government takes in. Members of Congress are most frequently rewarded for their efforts in securing government benefits and spending commitments, not for the restraint they show in committing public funds. By running a deficit, they can satisfy the demands of particular groups — and reap the political benefits of doing so — without antagonizing others by raising their taxes.

Under those circumstances, it is understandable why they say yes more often than they say no. And that helps to explain why the deficit has continued to rise despite widespread concern about a government that is living beyond its means. What Americans need to consider is whether that is in the public interest, and if not, what can be done about the situation.

The tendency for Congress to increase spending faster than it increases taxes is not likely to be corrected unless the public decides that it is important to do so. The situation is not likely to change until there is a wider understanding of the long-term effects of massive government borrowing and a greater inclination for voters to ask whether their elected representatives have been too generous in approving public spending. As James R. Jones, Chairman of the House Budget Committee, recently put it, "The biggest problem in reforming the system is that there is no pressure on Congress to make hard choices. The missing ingredient is public pressure to solve the deficit problem."

CLOSING THE BUDGET GAP

So the habit of deficit spending is a reflection of the public's contradictory demands, and the inclination of elected leaders to try to accommodate them by saying yes more often than no — and to approve additional government borrowing to cover their costs. The budget gap results from an unwillingness either to abandon past spending commitments or to raise taxes to pay for them.

Considering the size of that gap between spending and revenues, it will be no easy matter to close it. In a report issued in February, 1983, the Congressional Budget Office set out to measure the severity of the problem, and what will be required to come to grips with it. Looking several years into the future, to fiscal year 1988, the report notes that even if the nation is willing to live with an annual deficit of $100 billion five years from now, it will still be necessary to find deficit-reducing measures totalling almost $200 billion a year in order to reach that goal. In the words of that report, "Finding deficit-reducing measures of that size will not be easy." The budget cuts of 1981, which prompted so much criticism, resulted in savings of only about $40 billion. Finding some $200 billion in the Federal budget will, therefore, be a far harder task. "To achieve this even more ambitious deficit reduction goal," as the CBO report concludes, "will require reconsidering all parts of the budget and the tax base. And it will require some difficult political choices."

So there are some difficult decisions here that Americans must begin to address. We need to examine the consequences of living beyond our means and ask whether steps should be taken to close the budget gap. It may require painful choices, complex tradeoffs and the decision to defer certain initiatives, however laudable.

This book was designed to help you think about the deficit and the federal budget process. It is intended to stimulate public debate about one of the most important issues this nation faces in the 1980s.

"The biggest problem in reforming the system is that there is no pressure on Congress to make hard choices. The missing ingredient is public pressure to solve the deficit problem."

—Rep. James R. Jones

2

THE NATION'S GROWING DEFICIT: IS IT A MATTER OF CONCERN?

For most of us, it is not easy to think clearly about the nation's debt and what it means: the figures are so large that they defy comprehension! What does it mean, after all, to say that the United States Treasury will issue checks this year for some $200 billion more than it takes in, or that the total federal debt as of September 30, 1983 — the end of the government's accounting year — will be approximately 1,350 billion dollars? To individuals who customarily think of debt as an obligation to be paid off as soon as possible, that figure — $1,350,000,000,000 — is incomprehensible. If we decided that we were going to pay off that debt, every family in America would be obliged to pay more than $20,000 as its share. That is one way of calculating what it would cost if we were not only going to balance this year's budget but also pay off the debt that remains from past deficits.

Given such a large public debt, it is understandable that many people believe that the government, like individuals, should be required to balance the budget, to live within its means. "The question of whether one generation has the right to bind another by the debt it imposes is a question of such consequence as to place it among the fundamental principles of any government," wrote Thomas Jefferson in 1789. "We should consider ourselves unauthorized to saddle posterity with our debts, and morally bound to pay them ourselves."

> "It is difficult for many people to grasp the significance of such forbiddingly large numbers. Essentially, there are three reasons why Americans may be concerned about the government's habit of spending far more than it takes in."

Even though the nation's leaders have for years warned against the temptation to buy now and pay later, many well-informed people insist that an unbalanced budget is not necessarily cause for alarm. National debt has long been a fact of life. Indeed, in Jefferson's own time — in four of the first ten years of the new Republic — the government ran a deficit. And in 46 of the past 50 years, the government has spent more than it's taken in through taxes. So why worry now?

If the government has been running a deficit for so many years, including many years of prosperity, why then is there

Drawing by Mankoff;
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"Did he say the budget was going to be a zillion billion krillion dollars or a krillion billion zillion dollars?"

Just as families are willing to incur debt in times of emergency, so too are nations when their very survival is at stake.

cause for concern today? The problem is not that running a deficit is a new or unusual thing, but rather that today's deficit is different from the deficits of the past in three important ways.

A GROWING PROBLEM

In several respects, it is appropriate to think about the national debt in the same way that you think about personal debt. What matters is not so much the total dollar amount of the debt as its relationship to your income. One reason for concern is that today's deficits are larger, not only in dollar terms, but also as a percentage of national income. If no substantial changes are made in the current levels of taxes and spending, the debt that has resulted from the accumulation of deficits during the first 207 years of American history — $1.1 trillion — will more than double in the six year period from 1983 to 1988. This year alone interest payments on debts of the past will cost about $88 billion — more than ten percent of the entire Federal budget for 1983.

Consider what that means. The more money the government borrows, the more we are obliged to pay in interest payments. For each year that the Federal government runs a deficit of $200 billion dollars, for example, we have taken on (assuming an average annual interest rate of 12 percent) an additional expense of $24 billion dollars to pay for the use of that money. And we will have to pay $24 billion in interest charges on that money every year until we decide to pay off the principle. In short, by choosing to pay for part of our current expenditures by borrowing instead of raising taxes this year, we are imposing an annual fee of $24 billion on *next* year's budget, on the *next* Congress, on the *next* generation — unless the original debt is paid off. That's money that won't be available to spend on *current* programs. And, in turn, that commitment makes it even more difficult to achieve a balanced budget in each succeeding year.

If you don't pay the original debt, you pay interest. And if you don't pay all the interest, then you pay interest on the interest — and the original debt grows larger. The fact that the deficit is growing has some direct consequences for us as taxpayers. As the debt gets larger and larger, we are committing an increasing share of next year's taxes — and our taxes for the year after that — to payments on money we borrowed for this year's expenses.

INVESTING FOR FUTURE GROWTH — OR MORTGAGING THE FUTURE

A second reason for concern has less to do with the amount of the deficit than with what deficit spending is being used for. There is another respect in which you might think about the deficit in the same way you'd think about your family finances.

While it is important to think about the size of the deficit, it is also important to consider what those extra dollars are being used for.

You know that it is one thing to borrow in order to buy a home, quite another to borrow in order to go on a spending binge. Similarly, there are times when it makes sense for the nation to borrow money. Just as families are willing to incur debt in times of emergency, so too are nations when their very survival is at stake. Historically, the major reason for rapidly running up public debt has been to provide for national security in wartime. During World War II, for example, the government ran up a deficit of $178 billion. Under such circumstances, no one questioned the wisdom of spending more than the government collected in taxes.

A second situation in which the government reasonably borrows money is to provide facilities and services that individuals cannot purchase for themselves — such as roads, railways, and other public works. Two hundred years ago, when the Founding Fathers debated the subject of public debt, James Madison responded to Jefferson by arguing that borrowing for the future is justified when posterity stands to benefit from it. "The improvements made by the dead form a debt against the living, who take benefit from them," Madison wrote. When the government borrows in order to build new public facilities, or to invest in human beings by providing low-interest loans for education, for example, it is acting much as a prudent corporation would — investing in order to increase future productivity. When corporations borrow for this reason, it isn't called "deficit spending," it's called investing in the future.

These two reasons for incurring a debt — to fight wars or to modernize the nation's public facilities — have long been recognized. Another reason is a relative newcomer. Since the Great Depression, it has generally been agreed that one way to get the economy moving again is for the government to temporarily spend more than it takes in. The Federal Budget includes "automatic stabilizers" so that the deficit rises when the economy is weak. These stabilizers work on both the tax side and the spending side of the budget. The largest automatic stabilizer is our tax system. Since the income tax is the government's principle source of revenue, revenues fall when unemployment increases. When people lose their jobs they lose income and pay little or no tax. During recessions most businesses sell and earn less, so they too pay reduced taxes. Thus when unemployment increases revenues decline and the deficit increases. But we have added automatic stabilizers on the spending side of the budget, too. An increase in unemployment means an increase in spending for unemployment compensation, food stamps, and other income-related programs. The automatic stabilizers work in reverse when the economy is growing. As the economy moves out of recession and workers are rehired, plants re-open, income increases and so do tax revenues. Spending for unemployment compensation and other needs-tested programs falls off. And the deficit should fall also.

If the recent growth of the nation's indebtedness could be attributed to any of these reasons, there would be far less concern. But none of these factors explains the nation's recent tendency to run large deficits. The nation is not at war. In contrast to the 1950s, when much public money was used to construct bridges, schools, sewers, and a new interstate highway system, far less of what we're spending today is for purposes like this. While the country has suffered from severe recessions over the past decade, spending to get the economy moving again isn't the main reason for growing indebtedness. The nation now runs large deficits in good years as well as bad.

The growing deficit of recent years is particularly troubling, in other words, not only because it is a peacetime deficit. It is troubling because the additional government spending financed by borrowed money is not enhancing the nation's productivity or providing facilities that future generations will benefit from.

OBSTACLES TO SUSTAINED ECONOMIC GROWTH

Indeed, far from enhancing the strength of the economy in such a way as to ensure to the next generation an improved standard of living, government borrowing now poses a substantial threat to the vitality of the economy. This is a third reason for concern about large deficits and one that has been very much on people's

"We should consider ourselves unauthorized to saddle posterity with our debts, and morally bound to pay them ourselves."
— Thomas Jefferson

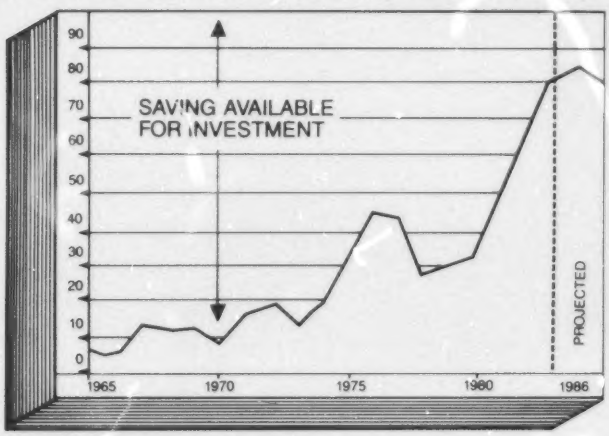
As the government borrows more, there are fewer borrowable funds for private investors and for individuals seeking home mortgages.

DAVID HORSEY
Courtesy Seattle Post-Intelligencer

David Horsey, Courtesy *Seattle Post-Intelligencer*

IS GOVERNMENT BORROWING CROWDING OUT BUSINESS INVESTMENT?

FEDERAL DEFICIT AS PERCENT OF NET SAVING.



SOURCE: House Budget Committee

minds as the nation struggles to recover from a severe recession: that deficits themselves pose a real obstacle to sustained growth. Deficits harm the economy: they push up interest rates.

When the government spends more than it takes in, it has to do what you and I would do under the same circumstances — it has to borrow money. It does so by issuing bonds to individuals and institutions. But there is only so much money available in the economy's pool of lendable funds. When the amount of money in that pool exceeds demand, which is typically the case in periods of recession, there's no problem. Under those circumstances, the government can borrow without "crowding out" other potential borrowers or pushing up interest rates. In countries such as Japan where individuals save much more of their salaries, there's more money for the government to borrow. But that's not the case in this country, where, as a nation, we save only about five percent of disposable income — substantially less than in most other industrial nations. As a consequence, there's a good deal of competition among the bidders for those borrowable dollars. They include businesses looking to make new investments, individuals who want to take out a mortgage on a new home, consumers who want to buy on credit, and many others who need capital.

What happens, then, when the government bids for more and more of those borrowable dollars to finance its debt? It crowds out some of the others, and pushes up interest rates. The concern is that Uncle Sam's share of available domestic credit has been growing quite rapidly, from about 17 percent

in the 1960s to 25 percent in the 1970s, and then to more than 50 percent in 1983.

It is easy to see how that might affect you. If interest rates are high, you might not be able to afford a mortgage. Or you might decide not to take out a loan in order to put an addition on your house. That in turn would mean less work for local carpenters and less business for the local building supply company. Higher interest rates might mean that a local business decides not to borrow in order to expand its operations, and that would mean fewer new jobs. In general, when there's strong competition for borrowable funds, it is the larger corporations and state governments as well as the federal government that are favored, because they are considered better credit risks. More likely to be crowded out are smaller and newer businesses. One problem, then, is that those new businesses which are so important to the long-term vitality of the economy may not be able to find the funds to get off the ground. Another is that higher interest rates make the capital investments which are so important to companies of all sizes prohibitively expensive.

This is why there is so much concern about the economic impact of the borrowing that the Federal government must now do to finance its debt. We have as a nation gotten into the habit of deficit spending in order to avoid harsh choices about how to pay for all of the commitments of the Federal government. But in choosing to live beyond our means, we are also making it increasingly difficult to sustain the nation's economic health.

THREE REASONS FOR CONCERN

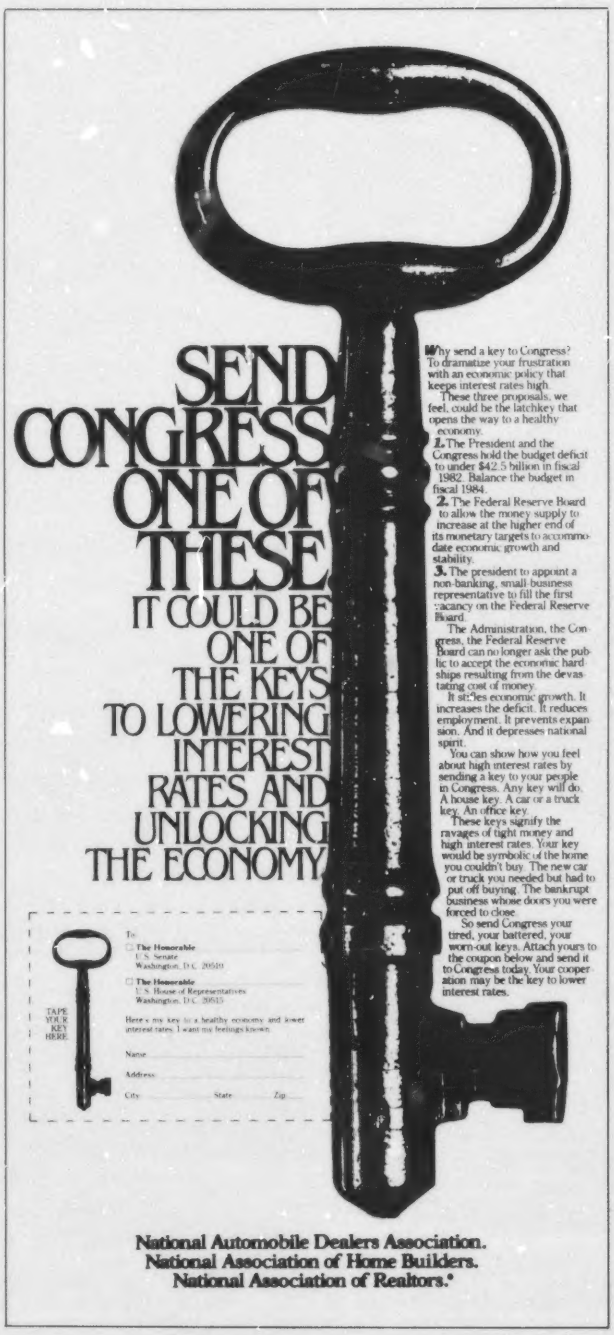
To summarize, there are three reasons for concern about that increasing pile of government I.O.U's. One is quite simply that the debt has, in recent years, been growing so rapidly. Deficits breed deficits. The interest payments on the national debt are eating up an increasing percentage of the Federal budget. By increasing the size of our debt, we are digging a hole for ourselves that is more and more difficult to get out of.

A second reason for concern has less to do with the amount being borrowed than with what the borrowing is being used for. Under certain circumstances — in a national emergency, for example, or when borrowed funds are used to build public facilities, or to stimulate the economy during a recession — deficit spending might be regarded as a prudent investment. But these are not the reasons for recent spending in excess of revenues.

A third reason for concern is that the deficits projected for the next few years pose a real threat to the nation's economic recovery. A balanced budget is no panacea for our economic woes. But a deficit that drives interest rates sky-high is a real obstacle to economic growth.

So it is exceedingly important to begin to close the gap between the ambitious spending commitments we have made and what we are willing to pay for.

"By choosing to pay for part of our current expenses by borrowing, we are imposing an annual fee of $24 billion on *next* year's budget, on the *next* Congress, on the *next* generation."


SEND CONGRESS ONE OF THESE
IT COULD BE ONE OF THE KEYS TO LOWERING INTEREST RATES AND UNLOCKING THE ECONOMY
Why send a key to Congress? To dramatize your frustration with an economic policy that keeps interest rates high.
These three proposals, we feel, could be the latchkey that opens the way to a healthy economy.
1. The President and the Congress hold the budget deficit to under $42.5 billion in fiscal 1982. Balance the budget in fiscal 1984.
2. The Federal Reserve Board to allow the money supply to increase at the higher end of its monetary targets to accommodate economic growth and stability.
3. The president to appoint a non-banking, small-business representative to fill the first vacancy on the Federal Reserve Board.
The Administration, the Congress, the Federal Reserve Board can no longer ask the public to accept the economic hardships resulting from the devastating cost of money.
It stifles economic growth. It increases the deficit. It reduces employment. It prevents expansion. And it depresses national spirit.
You can show how you feel about high interest rates by sending a key to your people in Congress. Any key will do. A house key. A car or a truck key. An office key.
These keys signify the ravages of tight money and high interest rates. Your key would be symbolic of the home you couldn't buy. The new car or truck you needed but had to put off buying. The bankrupt business whose doors you were forced to close.
So send Congress your tired, your battered, your worn-out keys. Attach yours to the coupon below and send it to Congress today. Your cooperation may be the key to lower interest rates.
TAPE YOUR KEY HERE
To:
The Honorable
U.S. Senator
Washington, D.C. 20510
The Honorable
U.S. House of Representatives
Washington, D.C. 20515
Here's my key to a healthy economy and lower interest rates. I want my feelings known.
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GOING AFTER WASTE, FRAUD, AND ABUSE: WILL THAT SOLVE THE PROBLEM?

> "Everyone recognizes there's some waste in government, but is there enough to matter, and can we do anything about it?"

But isn't there a quick way to close the budget gap? What about all the waste in government? For years, Senator William Proxmire's office has regularly conferred a prize that no one in Washington is eager to receive. It is the "Golden Fleece Award," bestowed upon agencies of the federal government who seem to be frittering away taxpayers' dollars. Over the years, that award has called attention to hundreds of instances of what looks like incompetence or mismanagement. On one occasion, it was granted to the National Institute of Mental Health for funding a study of why bowlers, hockey fans, and pedestrians smile. Senator Proxmire, who didn't regard the topic as one of great significance, was not amused.

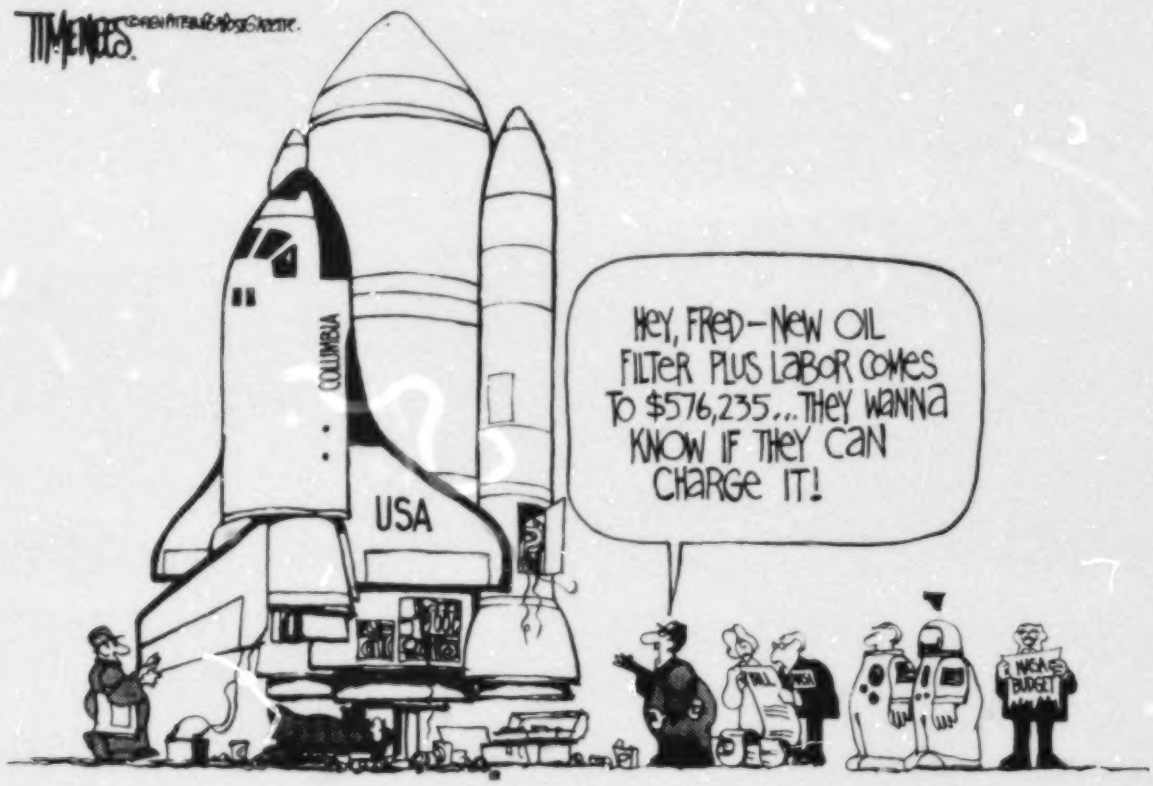
On another occasion, the award went to the U.S. Army for spending $6,000 for the preparation of a 17-page document that tells the government how to buy a bottle of Worcestershire sauce. (The result, as someone in the Senator's office found out, is that the Pentagon now spends $10 a case for Worcestershire sauce instead of $8 for a commercial brand.) One of the Senator's favorite examples is a grant made by the Environmental Protection Agency to preserve a Trenton, New Jersey sewer as an historical monument — a clear example, as he pointed out, "of taxpayers' money going down the drain."

Many of those instances are amusing. Some are simply appalling. But all of them help to explain why the government finds it so hard to live within its means. It would appear that a lot of what we pay as taxpayers does indeed go down the drain. If the government tightened up its act, is it possible that we might not be forced to tighten our belts to trim the budget deficit?

THE HIGH COST OF WASTE, FRAUD AND ABUSE

The high cost of waste, fraud and abuse is a favorite theme of candidates for public office. In his televised debate with President Carter in 1980, for example, Mr. Reagan reminded his audience of a report from the General Accounting Office that estimated that tens of billions of dollars are lost each year through fraud alone, in addition to what the government loses through waste. Throughout the campaign, he referred to this as "a national scandal," and promised to rid government of waste and "extravagance." When asked in that debate how he would balance the budget while cutting taxes and increasing defense spending, Mr. Reagan declared that "there is enough extravagance and fat in the government" to do so.

That idea seems almost self-evident to many Americans. It seems as if every time you pick up a newspaper you find a new instance of waste or a new report of expensive and unnecessary luxuries for top officials, such as door-to-door limousine service for members of the White House staff. And it is an assertion that people of all political persuasions seem to agree with. Conservatives more often complain about public money wasted on "welfare cheats," such as a Los Angeles woman


TIM MENEES
COLUMBIA
USA
HEY, FRED - NEW OIL FILTER PLUS LABOR COMES TO $576,235... THEY WANNA KNOW IF THEY CAN CHARGE IT!
NASA BUDGET

Tim Menees, Courtesy *Pittsburgh Post-Gazette*

who allegedly collected more than $400,000 over several years from the government to nurture and provide for 38 non-existent children. Liberals are more likely to complain about massive cost overruns at the Pentagon as it pursues the latest "bells and whistles," as high tech frills are called in the military. What nearly everyone agrees upon is that a great deal of money is being wasted. So why not look here for ways to reduce the deficit?

The term "waste" normally refers to unnecessary or low-priority programs, to government money frittered away through mismanagement or duplication of effort. "Abuse" refers to a larger, more amorphous collection of activities that are not always illegal, but are clearly undesirable. One costly example which the inspector general at the Department of Health and Human Services tries to keep an eye on is the widespread practice of selling Social Security cards to ineligible persons such as illegal immigrants. A card enables its holders to collect food stamps, unemployment assistance and other benefits to which they are not entitled. Still, the practice of selling cards is not explicitly outlawed.

Even more costly than waste and abuse are the instances of outright fraud. For those of us who each April struggle with that exasperating exercise known as I.R.S. Form 1040 and accurately report our income, it is galling to learn how many people cheat and how much their cheating costs the U.S. Government. Estimates of the money that never gets into the U.S. Treasury because people underreport their income, capital gains, or dividends, now run well in excess of $50 billion a year. It seems quite reasonable to conclude that the best way to close the budget gap is to close what is referred to as the "tax gap" — taxes owed but never paid to the Internal Revenue Service.

WHY IT'S SO HARD TO REMEDY

So it looks as though we might indeed find a solution here to the deficit problem. But the experience of one administration after another indicates that it is far easier to denounce waste and fraud than it is to locate it and to do something about it.

Some remedies are relatively simple. The I.R.S. recently took steps to check returns more thoroughly. As of spring 1983, new computers were installed in twelve regional I.R.S. offices to check returns and to compare them against other records such as bank statements. Responding to the charge that the I.R.S. has not been very aggressive in prosecuting tax evaders, the courts are beginning to impose tougher sentences and higher penalties.

But there has been strong resistance to other proposed measures designed to ensure that the I.R.S. gets what taxpayers owe. Consider, for example, what happened this past spring just before a new law was to go into effect which would have

"It would appear that a lot of what we pay as taxpayers goes down the drain. If the government tightened up its act, we might not be forced to tighten our belts to trim the budget deficit."

"As the experience of one administration after another indicates, it is far easier to denounce waste and fraud than it is to locate it, and to do something about it."

required withholding on income from interest. The U.S. Treasury estimates that nearly $8 billion in tax revenues is lost to the government each year because savers underreport the interest they earn. The intent of this new bill, which enjoyed bipartisan support from the Congress and the President when it was passed last year, was to require savings institutions to withhold a certain percentage from the interest people earn, just as employers are required to withhold a certain percentage of wage-earners' salaries. The I.R.S. felt that by doing so it could recover most of the lost revenue. But the banking industry and consumer groups launched a successful campaign to convince Congress to repeal the law because compliance would be so costly. It was an impressive example not only of what can be accomplished by a massive lobbying campaign, but also how difficult it is for Congress to take positive steps to ensure compliance with the tax laws.

It is just as difficult to do anything about the tax "loopholes" that people so commonly complain about. Although it is far easier to remember why a "loophole" was created if you benefit from it, it is worth recalling that every "loophole" was created for a reason.

Contributions to charitable organizations like the Red Cross or the United Way are tax-deductible. But there's a good reason: Most Americans feel that encouraging the activities of these organizations is in the public interest. Investment tax credits are similarly described by their critics as "loopholes," but they too were instituted with the best of intentions — to stimulate economic growth by making new investment more attractive. And after World War II, Congress made interest payments on home mortgages tax deductible to encourage Americans to purchase their own homes.

The exemption on home mortgage payments is the single biggest "loophole," in fact, costing the Treasury more than any other. And because its constituency is so large, it is almost unimaginable that Congress would consider repealing it, no matter how desperately it was searching for ways to bring more money into the federal Treasury.

Nearly all of the tax "loopholes" are incentives by which the government encourages certain types of activities considered to be in the public interest. You may feel some serve the public interest better than others, but each one has a constituency of supporters prepared to come to its defense if Congress threatens its repeal.

With outright examples of waste, fraud, and abuse, the problems are somewhat different but no less difficult. For example, Jimmy Carter promised in his 1976 campaign to get rid of Medicare and Medicaid fraud. Like most of his predecessors, he was serious about delivering on his promise. In fact, his Comptroller General reported that the General Accounting Office identified over 100,000 cases of fraud and related types of illegal acts against 21 federal agencies in the first two and a

half years of his administration. But ferreting out such cases, prosecuting offenders and trying to recover lost funds turned out to be a very difficult task. For all of the efforts of the Carter administration to make good on his campaign promise to save taxpayers' money by going after fraud, waste and abuse more aggressively, Mr. Carter — like his predecessors who made the same promise — had only modest achievements in this regard.

Any organization has its share of money that is frittered away, and large organizations like the federal government seem to lose a correspondingly large share of their resources in this way. Tracing the leaks, recovering waste, if necessary proving and prosecuting fraud and abuse — these are endlessly difficult and surprisingly expensive tasks in themselves. And they point to another reason why it is so difficult for the U.S. government to eliminate waste and fraud. Waste and fraud may be part of the price we pay for a free and open society, in which the government respects citizens' liberties. It would, for example, be easier to keep individuals from receiving benefits to which they are not entitled if we were required — as people in many other nations are — to carry national identification cards. That is an idea that has often been proposed, but never implemented because it is widely regarded as an infringement on individuals, a step toward "big brother" government.

A heavily policed state — or one in which all public records were cross-checked by government computers — may well eliminate some of the abuses that presently go undetected, but this too would have its costs: human costs, such as losses of privacy and freedom from government surveillance, as well as further government costs to undertake such activities.

In fact, one of the most important reasons why many instances of fraud and abuse are not detected and eliminated is that it is often quite expensive to do so. The government could conceivably hire far more inspectors, lawyers and auditors. But the cost of doing so would have to be weighed against the funds recovered.

NO SHORTCUTS

Steps are constantly being taken to make sure that Uncle Sam and the American taxpayer are not being fleeced. Since 1979, for example, as a result of a "hotline" installed by the General Accounting Office, thousands of federal employees and citizens have called to report such items as thefts from a Navy depot or undeserved welfare payments being received by someone currently in the workforce; and millions of dollars are recovered each year as a result. No matter how effective such efforts are, however, there seems to be no reasonable hope that they will produce the amounts required to cover any more than a small portion of the difference between what the government has been spending in recent years and what it receives in revenues.

For all of their promises on the campaign trail to balance the budget by eliminating extravagance and fat in government, elected officials soon discover what James R. Jones, Democrat from Oklahoma and Chairman of the House Budget Committee told reporters after a meeting with Mr. Reagan early in 1981: "There is simply not enough waste, fraud, and abuse to be found to balance the budget."

Jones does not argue that there is no waste, fraud and abuse in government. There certainly is. Some estimate that more than $50 billion of tax revenues is lost each year because of unreported earnings in the underground economy. And a Presidential commission on government spending recently estimated that reducing waste and mismanagement in the Pentagon could reduce spending by $92 billion over the next three years. But *finding* the waste and fraud, and collecting those dollars is another matter.

When it comes to reducing the deficit, there are unfortunately no shortcuts. There is only a choice between two uncomfortable options — reducing our spending or paying more taxes.

"There is simply not enough waste, fraud and abuse to be found to balance the budget."
—Rep. James R. Jones

4

A GUIDED TOUR OF THE FEDERAL BUDGET

On one occasion after another, when Americans are asked what is wrong with the Federal government, they answer with rare unanimity. It's just too big, people say, and it spends far too much money. And that's the reason for the deficit.

It is understandable that Americans should be so concerned about big government, for both its scope and its cost have expanded dramatically. Over the past half century, Americans have increasingly turned to government to solve their problems. As a result, government spending, which as recently as 1950 accounted for just 16 percent of all the goods and services we produce as a nation — just 16 percent of what is called the gross national product — now consumes some 25 percent. Over the past year, this sprawling enterprise called the federal government spent more than $800 billion dollars.

Since the simplest solution to the government's habit of spending more than it takes in is to cut down on expenditures, we need to look more closely at where those federal dollars go, and to ask which programs might be pared down or eliminated entirely. To find out where the money goes, all you need to do is to open the pages of the annual *Budget of the U.S. Government*, a thick volume that lists the amounts appropriated for hundreds of agencies and a bewildering variety of programs and purposes.

> "Nearly everyone agrees that we should cut down on what we spend. The problem is that we can't agree on where those cuts should be made."

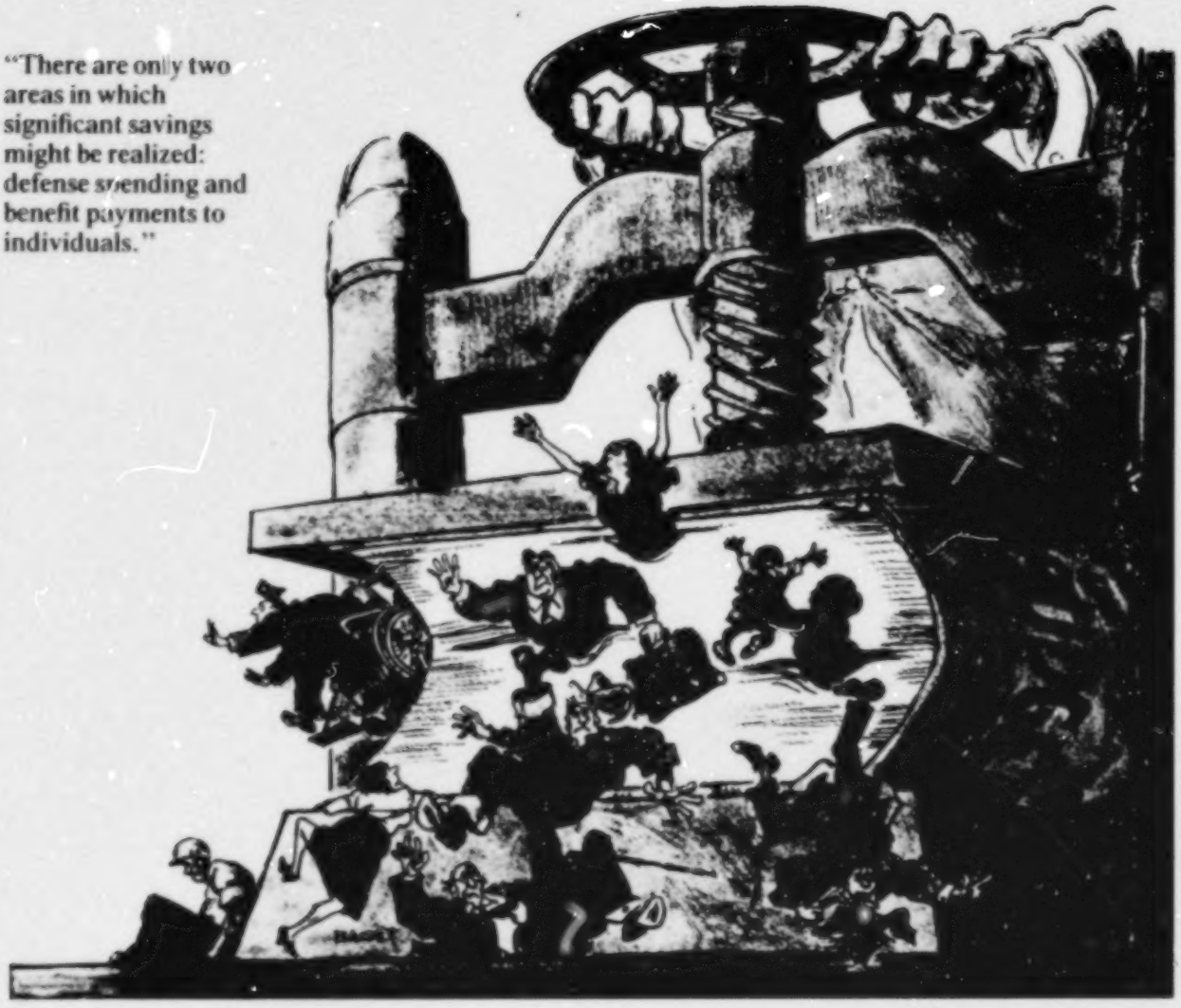
WHERE THE MONEY GOES

Think of the Federal budget as a dollar representing the $808 billion that the government spent this year. Government expenditures can be divided into four broad categories. About 10 cents out of our budget "dollar" went toward interest on the national debt. Another 27 cents went to the Pentagon to pay for national defense. The largest share, about 46 cents, was mailed to citizens in the form of checks — for Social Security, for pension payments to retired soldiers and civil servants, to reimburse doctors and hospitals that provide medical care for the aged and the poor, to provide welfare checks for the dependent and unemployment checks for the jobless, to banks for interest subsidies on small business loans, student loans and disaster loans.

That leaves just seventeen cents for what is called "discretionary non-defense" spending — which includes everything else the government does: the cost of the FBI and upkeep on the national parks, the Foreign Service and the Weather Bureau, foreign aid, the space program, medical research, environmental protection, highway construction, mass transit, aid to education and to handicapped children, disaster relief, and the salaries of all non-military Federal workers, including Congress, the President, and their respective staffs. Most of the spending cuts of the past few years have been made in this area, which means that further cuts are likely to be difficult.

Since the cost of interest on the national debt cannot be reduced, and substantial cuts have already been made from that

"There are only two areas in which significant savings might be realized: defense spending and benefit payments to individuals."



Gene Bassett, *U.S. News/World Report*

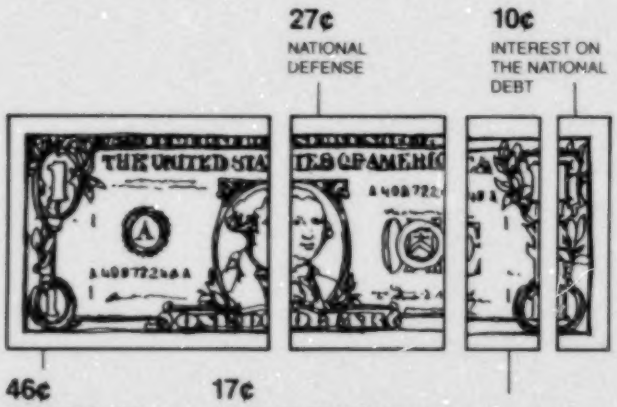
relatively small portion of the budget which goes for discretionary spending, only two areas remain in which significant savings might be realized: defense spending and benefit payments to individuals. So let us examine each of these areas.

PROVIDING FOR THE GENERAL WELFARE

The largest category of Federal spending and the one that has grown most dramatically in recent years provides direct benefits to individuals. These are often called "entitlement" programs because any citizen who qualifies is automatically entitled to receive them. The enactment of Social Security in 1935 was the first move by Congress to establish a system of federally-provided benefits to individuals, and it remains by far the largest of these entitlement programs. In 1956, the Social Security program was expanded to include disability insurance that provides benefits to disabled workers and their spouses and children. In the 1960s, as a new awareness of poverty and inequality emerged, many new entitlement programs were initiated, including food stamps, Aid to Families with Dependent Children, child nutrition programs, an expanded unemployment insurance program, more benefits for the disabled, and increased retirement benefits for public employees. In the early years of the Kennedy administration, in the early 1960s, there were about 200 such programs. Today, there are more than a thousand. Their steady increase has reflected our growing commitment as a nation to meet a wide range of social needs for the great majority of Americans.

In recent years, however, it has become increasingly clear that the nation has to pay a high cost for those good intentions. First of all, even more than with other Federal spending programs, their actual costs far exceed the sums that their sponsors

THE 1983 BUDGET DOLLAR: WHERE WILL IT GO?


27¢
NATIONAL DEFENSE
10¢
INTEREST ON THE NATIONAL DEBT
46¢
DIRECT BENEFIT PAYMENTS TO INDIVIDUALS (including Social Security, Medicare and Medicaid, unemployment benefits, federal employee and veteran's pensions, etc.)
17¢
ALL OTHER SPENDING (Including grants to state and local governments, education, housing assistance, employment and training assistance, social services, environmental protection, science research, space program, highway, airport and mass transportation aid, disaster relief, national parks, energy conservation, water and land management, foreign aid, foreign affairs, post office, general government operations)

Congressional Budget Office, February, 1983

envisioned. For example, the sponsors of the disability insurance provision that was added to Social Security in 1956 predicted that by 1980 the program would distribute $860 million in benefits to some one million workers. In fact, this year about six million people will receive disability insurance at a cost of roughly $22 billion. The costs of other entitlement programs — such as Medicare, Medicaid, and the food stamp program — have also run far beyond projections.

There is a second reason why entitlement programs have become so costly. During the 1970s, to protect millions of Americans from the erosion of their incomes due to inflation, many programs were "indexed" to rise automatically with increases in the cost of living: whenever the Consumer Price Index goes up, the payment to individuals goes up automatically. Social Security was the first major program indexed for inflation. Since then, various programs, including supplemental security income, and veterans benefits, have also been indexed. That adds substantially to their costs. In 1981 alone, direct indexing of entitlement programs cost the government an additional $23 billion. The Congressional Budget Office estimates that the annual cost of entitlement programs will increase by $125 billion between now and 1988. Almost half of that increase reflects the projected expense of indexing payments to the cost of living.

There is a third and even more critical reason for the rising costs of entitlement programs — the number of people eligible for them is growing rapidly. Take the elderly population. Over the past fifty years, this nation has created a comprehensive social insurance program to provide relief from the age-old worries about poverty, ill health, and financial security in retirement. Now, because of a declining birth rate and increasing life expectancy, the proportion of the American population over the age of 65 has grown from about 4 percent fifty years ago, when the Social Security program got started, to 11 percent today, and it will double again over the next fifty years. One out of every three dollars the Federal government spent in 1980 went for pensions or medical care for people over 65 and that large fraction will grow even larger unless commitments to the elderly are redefined.

What has become clear only in recent years is that the cost of these entitlements is increasing faster than the nation's ability to pay for them. The escalating costs may have something to do with "welfare cheats" or undeserving recipients claiming benefits to which they're not entitled. But they have far more to do with the nature of the promises this nation has made and the growing numbers of Americans who are entitled to benefit from them.

Members of Congress have been reluctant to propose reductions in benefits, or even to slow their rate of growth, for two compelling reasons. Surveys consistently show that as strongly as Americans feel about reducing spending, most people *would* forego balancing the budget if it required sharp cuts in Federal aid to the elderly, the poor, and the handicapped.

Furthermore, since so many Americans are themselves the beneficiaries of such entitlement programs, there is a large constituency prepared to oppose any changes in these programs.

So there are formidable obstacles to holding down spending in this category of the Federal budget. In effect, many Americans want it both ways: on the one hand, people want to reduce the scope and the cost of the federal government, and they elect leaders who promise to do so. On the other hand, there is strong support for government programs which provide assistance to the unemployed, the elderly, the disadvantaged and the disabled — categories in which almost all of us find ourselves sooner or later — even though the cost of such Federal entitlement programs amounts to almost half of the government's entire budget.

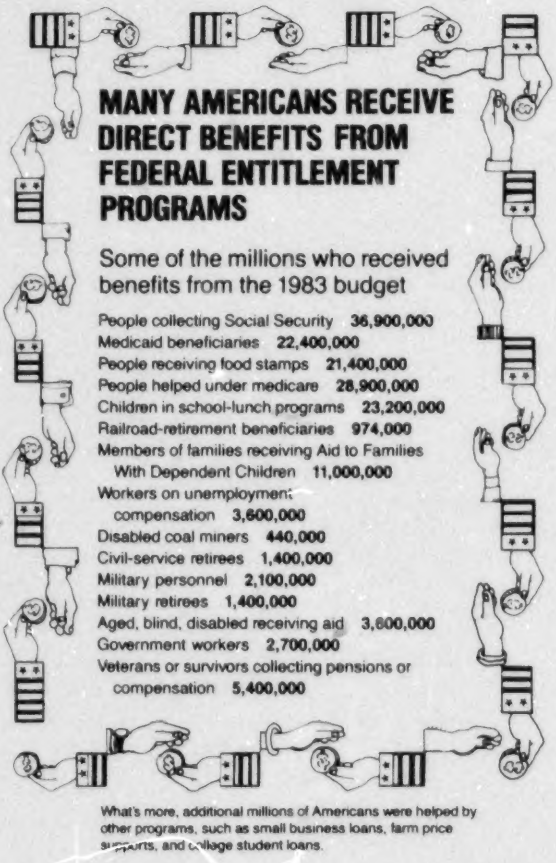
PROVIDING FOR THE COMMON DEFENSE

The second largest category of federal spending is national defense. Here too there is a sharp conflict between what people say they want — an increase in the nation's ability to defend itself — and a reduction in federal spending.

As a percentage of the total budget, defense spending declined steadily during the 1970s as the Vietnam War ended and spending on social programs increased. By 1980, defense spending amounted to only 23 percent of the federal budget — its lowest level since just after World War II. Throughout the 1970s, as Soviet military spending steadily increased, and as the Soviets deployed a new generation of nuclear missiles, concern about our military strength grew. By the late 1970s, in the face of Soviet actions in Afghanistan and Poland, and the taking of American hostages in Iran, many people became convinced that our military spending had to be increased. In the 1980 Presidential campaign, both candidates called for significant growth in defense spending. Since his inauguration, President Reagan has asked Congress for the biggest military build-up since World War II, a doubling in spending from $160 billion in 1981 to over $325 billion a year by 1986.

One of the strongest arguments for a military build-up is that it would be dangerous to allow the Soviets, whose military spending has steadily increased, to surpass us. The Administration insists that sharp increases in defense spending are necessary, even if they require spending reductions in other areas. To reduce military spending now, the President argues, would send the wrong signal to the Soviet Union. To pursue serious arms control negotiations we need to show the Soviet Union that we are prepared to match them dollar for dollar.

There is broad agreement in this country about the need to increase defense spending. But there are different views about how quickly that build-up should occur. "There has never been a period of sustained growth in real defense spending since 1948 such as the one now," says Murray Weidenbaum, former chairman of President Reagan's Council of Economic Advisers. "What worries me is that such crash efforts rarely increase


MANY AMERICANS RECEIVE DIRECT BENEFITS FROM FEDERAL ENTITLEMENT PROGRAMS
Some of the millions who received benefits from the 1983 budget
People collecting Social Security 36,900,000
Medicaid beneficiaries 22,400,000
People receiving food stamps 21,400,000
People helped under medicare 28,900,000
Children in school-lunch programs 23,200,000
Railroad-retirement beneficiaries 974,000
Members of families receiving Aid to Families With Dependent Children 11,000,000
Workers on unemployment compensation 3,600,000
Disabled coal miners 440,000
Civil-service retirees 1,400,000
Military personnel 2,100,000
Military retirees 1,400,000
Aged, blind, disabled receiving aid 3,600,000
Government workers 2,700,000
Veterans or survivors collecting pensions or compensation 5,400,000
What's more, additional millions of Americans were helped by other programs, such as small business loans, farm price supports, and college student loans.

Source: U.S. Office of Management and Budget

"What has become clear only in recent years is that the cost of those entitlements is increasing faster than the nation's ability to pay for them."

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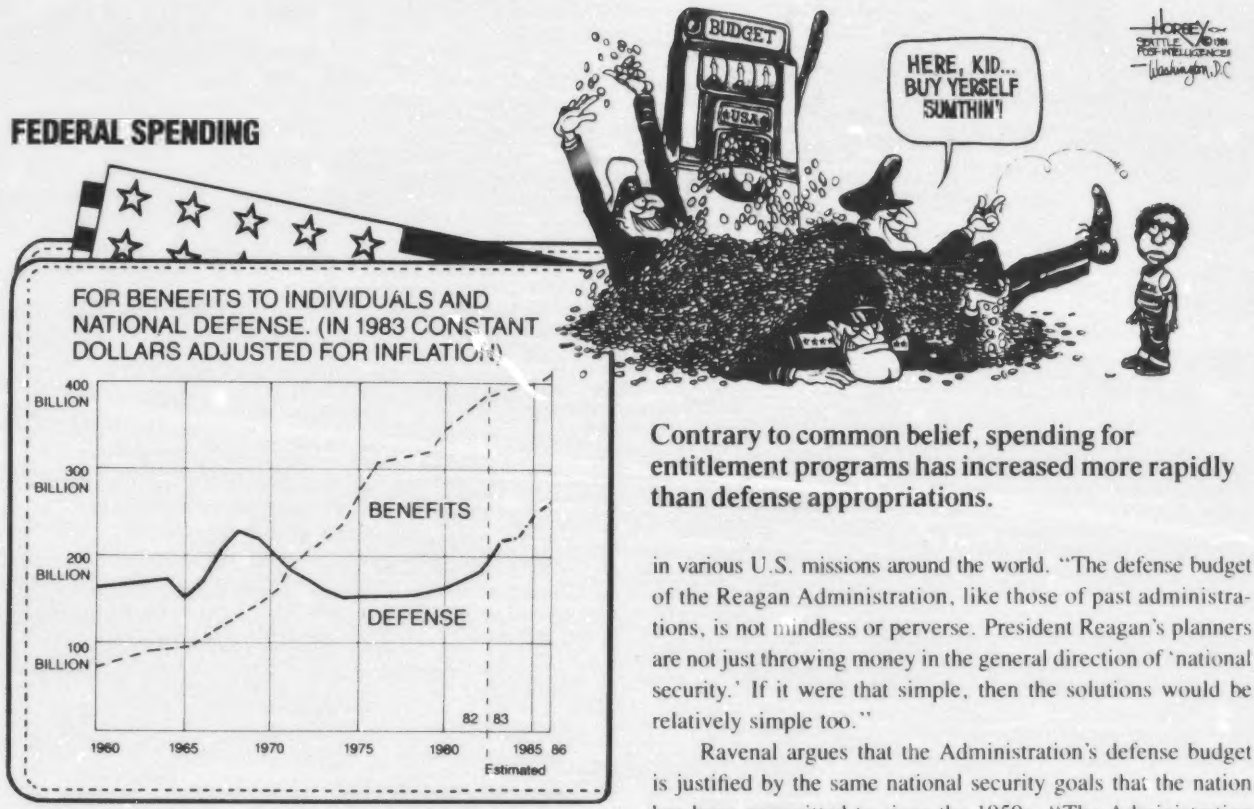


David Horsey. Courtesy *Seattle Post-Intelligencer*

SOURCE: U.S. Office of Management and Budget.

Contrary to common belief, spending for entitlement programs has increased more rapidly than defense appropriations.

national security. They strain our resources and create bottlenecks."

To some citizens, the idea of spending even more for national defense is hard to understand. "They say we have to catch up," says a California woman. "But from what I understand, we already have enough bombs to blow up the world many times over. Why keep going? What sense does it make?" The answer of many advocates of a military build-up is that we're not just building more bombs, we're modernizing and upgrading our defenses. Without a defense buildup, this nation will be unable to meet its commitments in Western Europe, the Middle East, and other areas where the national interest is at stake.

For others, the controversy about defense is really a controversy about certain weapon systems. "Why spend money on aircraft carriers?" a man from St. Louis said. "They're nothing but multi-billion dollar floating targets for one of those missiles the Argentines used in the Falklands." But others argue it is a fallacy to believe that the big money in the defense budget lies in a few "big ticket" items. "The MX missile and the B-1 bomber together come to less than five percent of the military budget," writes Earl Ravenal, a Defense Department official during the Johnson Administration. Most military spending, Ravenal explains, goes to pay for the combat forces required in various U.S. missions around the world. "The defense budget of the Reagan Administration, like those of past administrations, is not mindless or perverse. President Reagan's planners are not just throwing money in the general direction of 'national security.' If it were that simple, then the solutions would be relatively simple too."

Ravenal argues that the Administration's defense budget is justified by the same national security goals that the nation has been committed to since the 1950s. "The Administration is trying to spend what it takes to do that job," he writes. "If we decide to cut defense spending, we must also change our foreign policies. If we did that, we would no longer be able to defend the world in the way in which we and our allies have become accustomed. We cannot have containment without tears."

So the debate over military spending, like the debate over entitlement programs, comes down to the question of what our commitments are, and what it will cost to honor them. Advocates of greatly stepped-up defense spending argue that this is the price we have to pay to meet our commitments around the globe. Critics of this approach worry that we simply cannot reduce social spending any further.

POINTING IN BOTH DIRECTIONS

So what do we learn from this guided tour of the Federal budget? It helps to explain why, despite strong public sentiments about reducing spending and balancing the budget, it has been so difficult to make any progress in that direction. Even in a budget so large, it seems to be particularly hard to find programs that can be trimmed and others that can be eliminated.

Some savings can be realized by budget-cutting measures such as those passed by Congress in 1981. Those cuts, pushed

through Congress by a popular President, realized a savings of some $40 billion a year, but that's far less than what is necessary to balance the budget. And even they were fiercely opposed by millions of Americans who were incensed at what they regarded as attempts to balance the budget on the backs of the needy and the vulnerable. Further reductions in spending for domestic programs would probably produce an even greater public outcry. For all the debate that now rages around the question of military spending, there seems to be a consensus that a somewhat larger portion of government spending should be allocated to defense. Far from offering a partial solution to the question of how the budget gap will be closed, spending looks as though it's destined to be increased, and that will only make the problem worse.

The huge Federal deficit is a clear symptom of a mismatch between the national goals we have set for ourselves and the resources available for implementing them. There is a fundamental contradiction between what most Americans want in general — reduced spending, a balanced budget — and the particular measures people are inclined to support. For that reason, some hard questions have to be asked if we are to make any progress toward reducing the deficit. Questions will have to be raised not only about what we want — all 230 million of us — from the Federal government, but also what the country can afford.

One of our options is to reduce spending — either by eliminating certain programs or by slowing their rate of growth. If substantial savings cannot be made by reducing spending, then the alternative is to close the budget gap by raising taxes.

Charles Steiner/Sygma

Every attempt to reduce government spending provokes bitter protest.

5

PAYING THE BILL FOR BIG GOVERNMENT

Imagine that it is April 14th, and the deadline is fast approaching for the completion of that most unpleasant of civic duties — paying your taxes. Along with some 95 million other American taxpayers, you struggle through that exasperating exercise called the 1040 form. And when you finally come to the bottom line — "Total Federal Taxes Due" — the figure is a jarring reminder of the high cost of big government.

What you're not likely to be thinking about is that even when your tax dollars are added to those paid by some 95 million other Americans, and when all of the Federal government's other revenues are collected as well, the grand total flowing into the Federal Treasury will still fall short of what the government pays out this year by some $200 billion. Yet if the deficit cannot be reduced substantially by cutting down on what we spend, each of us may have to consider paying out even more to support the high cost of the Federal government's varied activities. To gain a better sense of what would be required to close the budget gap by adding to Federal revenues, let's examine where that revenue comes from.

> "'Taxes,' as Justice Oliver Wendall Holmes put it, 'are what we pay for civilized society.' The question is just how much we have to pay."

WHERE THE MONEY COMES FROM

If you think of all of what the U.S. Treasury received this past year — a total of $606 billion — as a dollar, there are three small revenue sources, each of which accounts for slightly more than a nickel. One of those sources is the excise tax, which includes the taxes on such items as gasoline, cigarettes, telephone service, and airline tickets. Another is the corporate income tax — taxes corporations pay on their profits. The third is the category including all other taxes, such as estate and gift taxes, and customs duties. A far larger share — amounting to about 35 cents of every tax dollar — comes from Social Security taxes, which are paid jointly by workers and their employers. The largest share of Federal revenues — amounting to almost 50 cents — comes from the most familiar source, the personal income tax.

One solution to the nation's deficit problem would be to impose fees and taxes across the board one-third higher than those currently being paid. Since the nation is now spending $4 for every $3 it receives, that is what would be required if we decided to close the budget gap by imposing higher taxes. But, for several reasons, that is not so simple as it sounds. Consider, for example, the argument against raising corporate taxes. While at first it may seem an appealing solution to place a greater tax burden on corporations, which appear to be better able to afford that burden than many families are, some people see real drawbacks to this approach. Those extra tax dollars demanded of corporations have to come from somewhere. To pay them, companies might use funds that otherwise would have gone for new plants or equipment, for stockholder dividends, or for employee wages and benefits. For corporations,

Drawing by Lorenz; © 1971 The New Yorker Magazine, Inc.

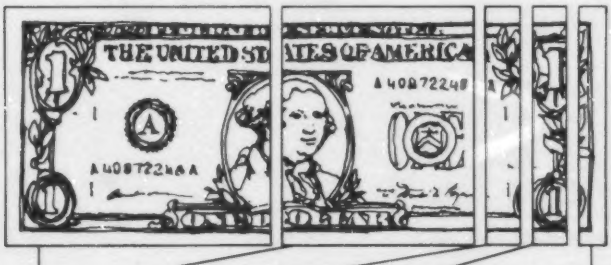
"I'm sorry about this, but I'm afraid I just can't wait till April 15th."

higher taxes are considered another cost of doing business — just like higher fuel costs, or higher labor costs — and eventually most are passed along to consumers in the form of higher prices. For that reason, some people say, imposing higher taxes on corporations amounts to little more than imposing additional taxes on ourselves — but doing so in a way that is both indirect and inefficient.

To turn to another of those sources of Federal revenue which doesn't come directly from most taxpayers' pockets, we might decide to close the budget gap by imposing higher excise taxes. That is what Congress decided to do in the Summer of 1982 when, frightened by the size of the deficit but unwilling to alter the three-year tax cut that had been passed in the previous year, it passed a series of measures to generate additional revenues. As a part of the package, Congress increased the gasoline tax and highway-user fees, two measures that incensed the trucking industry. To signal their discontent and to put pressure on Congress to rescind those measures, thousands of truckers staged a nationwide strike. As a result, supplies of many of the products transported by truckers were interrupted, and there were incidents of strike-related violence in virtually every region of the country. The point is that whenever special taxes such as the highway-user fee are levied, the people who must pay them feel unfairly burdened.

WHERE THE GOVERNMENT'S 1983 TAX DOLLAR COMES FROM

$597.5 billion



48¢ INDIVIDUAL INCOME TAXES $285.2 billion

35¢ SOCIAL SECURITY TAXES AND EMPLOYER CONTRIBUTIONS $210.3 billion

6¢ CORPORATE INCOME TAXES $35.3 billion

6¢ EXCISE TAXES ON CERTAIN PRODUCTS AND ACTIVITIES (e.g. cigarettes, telephone service, etc.) $37.3 billion

5¢ ALL OTHER RECEIPTS (including estate & gift taxes, customs duties, etc.) $29.46 billion

ESTIMATES: Office of Management and Budget, February, 1983

THE FAIREST TAX

It was because the income tax was regarded by Congress and the American public as the fairest and most efficient way of assessing taxes that it was first instituted in 1913 as a permanent source of government revenues. In the seventy years since then, what was once a minor assessment has become the mainstay of the Federal tax system. Over the years, the American public has been asked to pay an increasingly large percentage of its income to support the costs of the government.

Throughout the 1950s and 1960s, most Americans felt that the Federal taxes they were asked to pay were about right. But by the 1970s, as confidence in the government declined and taxes continued to rise, dissatisfaction with the level of Federal taxes grew quite dramatically. By 1976, propositions to limit taxation appeared on the ballots in five states, and by 1978 such measures were passed in eleven states — most prominently in California, where concern over rising taxes led to a landslide victory for Proposition 13 (which reduced state property taxes). As its most prominent spokesman Howard Jarvis intended, the success of that measure did indeed "send the politicians a message." The message was that many Americans think that taxes are simply too high.

As a candidate for the Presidency, Ronald Reagan promised to do something about the situation. Taxes had risen so high, many people argued, that they were discouraging work and investment, and stifling the economy. The Kemp-Roth tax bill in 1981 was the newly elected President's response. Passed over the objections of members of Congress who were concerned about soaring deficits, the bill illustrated how popular tax-cutting measures are. It reduced taxes by five percent in 1981, ten percent in 1982, and an additional ten percent in 1983. A separate feature of that bill was intended to keep taxes low once the reductions were in place. Normally, as inflation drives up the cost of living, wages creep up too, and taxpayers find themselves in a higher tax bracket. But the 1981 bill specified that, beginning in 1985, the income brackets which determine how much you are expected to pay would be tied to the rate of inflation, so that taxpayers would no longer be pushed into higher brackets by inflated prices. By eliminating "bracket creep," that bill responded to one of the chief concerns of people who had organized behind the tax-reduction movement.

Critics of the measure point out, however, that while the Kemp-Roth bill responded to the concern that many Americans have about that increasingly large tax bite taken out of their wages, it has widened the gap between government revenues and expenditures. According to the Congressional Budget Office, the cost over five years of those tax reduction measures passed by Congress in 1981 will be $750 billion. Without the tax reduction measures that were approved by the Congress in 1981, Americans would now be shouldering a tax burden of 23 percent of GNP — much more than in any year since the Second World War. Because of Kemp-Roth, taxes will decline to about 18 percent of GNP, which is about the same tax burden that prevailed in the early 1970s.

The crux of the problem is that as desirable as it may be to return to the lower tax rates of a few years ago, the expenses of the Federal government are now — and will continue to be — higher than they were then. Once again, we are faced with a hard choice: If we demand lower taxes without at the same time substantially reducing government spending, the result will inevitably be soaring deficits, with all of their corrosive effects. The alternative is to face the fact that, largely because of the increasing costs of defense and entitlement programs, the Federal government needs more income to pay its bills.

IS IT NECESSARY TO RAISE TAXES?

There are some strong arguments against raising taxes to close the budget gap. One of them is quite simply that higher income taxes discourage people from working more and earning more; they create a bigger incentive for people to resort to the "underground economy" in order to avoid taxes; and they discourage savings to some extent.

On the other hand, the case can be made that — given the alternatives — perhaps raising taxes is the best way for the nation to start to live within its means.

The chief advantage of raising taxes rather than reducing expenditures to narrow the budget gap is that tax hikes can be applied to everyone more or less fairly, while the alternative of cutting certain programs necessarily hurts some groups more than others. The elderly, for example, will bear most of the burden if Social Security is trimmed. Residents of big cities will be affected disproportionately if aid to mass transit is reduced. The poor will suffer more than others if spending is curtailed for income security programs. Even cutting the defense budget tends to harm citizens in some areas — St. Louis and Seattle, for example, where employment depends heavily upon large defense contractors — more than others.

If the deficit were reduced by making substantial spending cuts, the effect of doing so might well be to transfer costs to the state or local level. If cutbacks were made in Federal spending in such areas as highway repairs, education, or unemployment insurance, state and local governments would be forced to pick up the bill. Because state and local revenues rely heavily on sales and property taxes, which are less progressive than the income tax, the effect of passing the buck in this way would be to impose a greater burden on the poor. So in this respect too, raising new Federal taxes may be more equitable than making spending cuts.

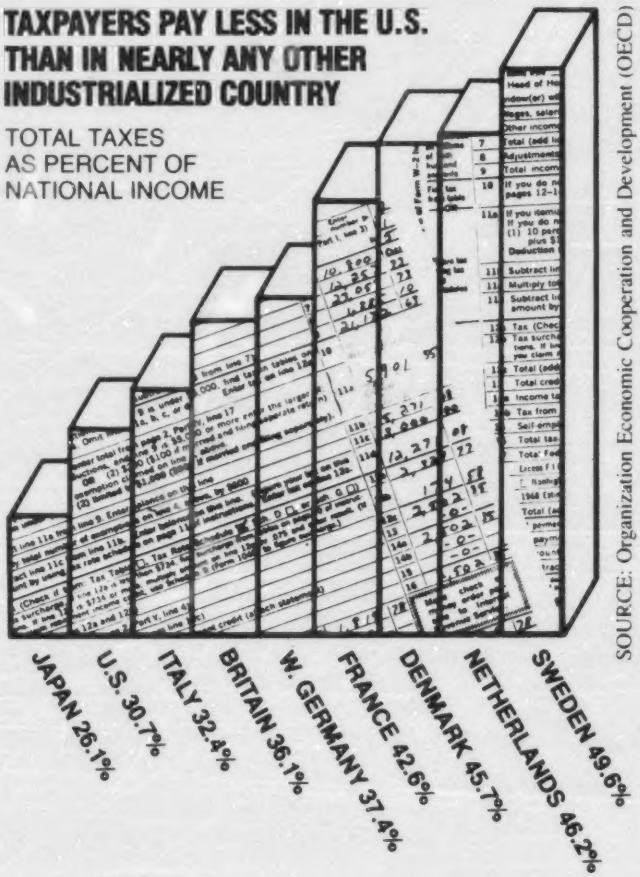
Finally, tax hikes have the additional advantage of forcing us to confront directly the cost of government services and programs, and the question of who should bear their burden. There are various ways in which the tax system might be changed. For example, we might move in the direction of new taxes based upon consumption rather than income, which have the advantage of offering an incentive to savings. Or we might move toward a more progressive tax system, which asks more than is currently the case from those who earn more. But however new taxes are raised, by choosing to do so we make a deliberate decision about who will pay the bills.

Perhaps the best argument for imposing new taxes is that, compared to our habit of borrowing to cover the difference between revenues and expenditures, this is a more honest way of paying the bill for big government.

TAXES AND CIVILIZATION

Raising taxes to close the budget gap may be the fairest way of spreading the burden, but members of Congress as well as millions of Americans are understandably reluctant to do so. At a time when so many people feel that they already pay too much in taxes, no one in Washing[illegible]ants to ask the American public to pay even more. If the gap between government spending and its revenues were to be closed by assessing a portion of that $200 billion shortfall to every taxpayer, everyone would pay about one-third more than they do at present.

Such a decision would be regarded by most members of



Among industrial nations, only Japan has lower tax rates than our own.

Drawing by Fisher; © 1979, The New Yorker Magazine, Inc.

"I want you to draft the bill with all your usual precision and flair. Explain its purposes, justify its expenditures, emphasize how it fits the broad aims of democratic progress. And one other thing: Can you make it sound like a tax cut?"

Congress as political suicide. For all of their concern about the long-term effects of running huge deficits, elected leaders must keep the short-term problem of re-election clearly in mind. Over the past three decades, Congress has been notably reluctant to propose tax increases except in times of national emergency such as the Korean War.

As a result of that fear of how voters would react to new taxes, government revenues have not kept up with expenditures. Elected leaders know how costly big government is. But they are understandably timid about asking voters to face the unpopular fact that if the deficit cannot be reduced by cutting back on spending then taxes will have to be raised.

Perhaps it is time, both for our elected leaders in Congress and for us as taxpayers, to look again at the unpleasant business of paying more taxes. "Taxes," as Justice Oliver Wendall Holmes wrote, "are the price we pay for civilized society." Big government — with all of its varied agencies and commitments — comes with a correspondingly big price tag. The option that we face now is either to scale down those commitments, or to step up and pay what they cost.

6

THE $200 BILLION QUESTION

And so we return to the basic issue — the $200 billion question. Is it in the public interest for the government to spend so much more than it takes in? If it is not, what steps can be taken to reduce or to eliminate that $200 billion gap between spending commitments and government revenues?

Clearly a great many Americans are now concerned about the government's habit of living beyond its means. Every survey of public opinion shows a large majority that believes the federal budget should be balanced. Analysts at the Congressional Budget Office agree that the prospect of large deficits is "cause for alarm." They warn that the "American economy faces unprecedented risks in the years ahead unless the government takes measures to narrow the gap between tax revenues and spending." We are told by one President after another that by living beyond our means we are mortgaging the future.

There is increasing concern about the impact of government borrowing on interest rates, and about the long shadow that the nation's debt casts over the prospects for economic recovery. In recent months a bipartisan group of former Cabinet officers has led a broad-based appeal to Congress and the President to recognize the seriousness of the problem and the importance of doing something about it. In the words of a report from that group, "The Federal budget is now out of control. It is primed to generate immense deficits, year after year for decades ahead, deficits far larger than any in our history. This fiscal course is senseless. It threatens to lock the economy in stagnation for the remainder of the century."

There seems to be widespread agreement, in other words, about the seriousness of the situation. Yet the nation's leaders have not been able to do anything about it, and the deficits continue to grow.

> "The $200 billion deficit reflects a very simple fact: Congress has tried to accommodate more demands than the American people have paid for. Some hard choices have to be made if we're to live within our means."

THE PROBLEM IN BRIEF

Let us review, then, what the problem is, why it has proved so difficult to resolve and what our options are in trying to do so.

The source of the problem is clear enough. Over the past few decades, members of Congress have been voting larger expenditures year after year — larger not only in dollars but also as a fraction of the national income. After two decades of taking on new obligations, the Federal budget has ballooned to a point well beyond what American taxpayers have traditionally supported. It took about 170 years for the Federal budget to reach $100 billion. It took only eight more years to reach the $200 billion mark. Five years later, in 1975, Federal spending topped $300 billion. By 1980 that figure had nearly doubled again. And in 1983, the Federal budget passed the $800 billion mark. That would be one thing if government revenues had been sufficient to cover the cost of new commitments and responsibilities. Tax revenues have been rising, but not nearly as fast as expenditures. As a result, deficits have grown very rap-

Dana Fradon; © 1981, The New Yorker Magazine, Inc.

"Will you please stop saying 'Ouch!' every time we chop something out of the budget?"

"A veteran returning from Korea went to college on the GI Bill; bought his house with an FHA loan; saw his kids born in a VA hospital; started a business with an SBA loan; got electricity from TVA and, later, water from an EPA project. His parents retired to a farm on social security, got electricity from REA and soil testing from USDA. When the father became ill, the family was saved from financial ruin by Medicare and a life was saved with a drug developed through NIH. His kids participated in the school-lunch program, learned physics from teachers trained in an NSF program and went through college with guaranteed student loans. He drove to work on the Interstate and moored his boat in a channel dredged by Army engineers. When floods hit, he took Amtrak to Washington to apply for disaster relief, and spent some time in the Smithsonian museums. Then one day he wrote his congressman an angry letter asking the government to get off his back and complaining about paying taxes for all those programs created for ungrateful people."
—Sen. Fritz Hollings

idly and the budget has been balanced only once in the last twenty years.

The $200 billion deficit reflects a very simple fact: Congress has tried to accommodate more demands than the American people have paid for. We want Social Security benefits tied to the inflation rate to protect the elderly from the rising cost of living. We want health care for the poor and the elderly. We want to provide for the poor, the needy, and the disabled. We want good highways, a strong national defense, and assistance for farmers. We want to help the unemployed, to provide quality education for our children, and to clean up the environment. We want an effective criminal justice system, and we want to subsidize research in various fields. We want a volunteer army — which is more expensive than the draft. We want all this and more from the government. But at the same time, we want lower taxes — or at least taxes that are no higher than they have been. In short, we want to have our cake and eat it too. The gap between government spending and revenues results from our unwillingness either to abandon past spending commitments or to pay new taxes.

There are some compelling political reasons why Congresss now runs a deficit in good years as well as bad, and why one President after another has been unable to deliver on his promise to balance the budget. However strong the sentiments are for balancing the budget, and however sincere elected leaders are about trying to do so, when it comes down to the specific measures required to narrow the budget gap there is not much public support for what inevitably will be painful cuts. As things currently stand, members of Congress try to accommodate the public's incompatible demands by spending more than the government takes in — and borrowing increasingly large amounts

to cover the difference.

Heightened public awareness about the significance of the deficit is a step in the right direction, but it is only the first step. As the experience of the past few years indicates, good intentions about balancing the budget are not enough. Congress and the President will agree on a program to reduce the deficit only if they know that voters demand that they do so and if there is substantial support for specific measures to reduce the budget gap. What is most important now is to begin the debate about how to achieve that goal.

HARD CHOICES

If a solution is to be found, hard choices are necessary. There are no shortcuts, no simple or painless solutions. That means that we will have to re-think some fundamental questions: What is it that we want government to do? What should its priorities be? And how much are we willing to pay? We need to reconsider the government's major spending commitments, as well as its tax base, in order to determine how that gap might be closed. That means balancing costs and benefits, commitments and resources.

It is essential that the government carry out its duty to provide for the common security, to defend our interests around the world. But should that be done at the cost of weakening the economy? Ultimately, the nation's security rests upon the strength of the economy. Will it be necessary to moderate the growth of the defense budget? Should entitlement programs, which provide benefits to everyone who meets certain criteria, be similarly scrutinized? That doesn't necessarily mean that benefits to current recipients must be cut. Much progress could be made by curbing the rate at which benefits are increasing and taking further steps to limit benefits to people who don't really need them. And much can be accomplished if the issue is approached in the spirit of compromise and conciliation that helped to resolve the Social Security crisis this past year.

No one wants to impose a greater burden on the American taxpayer. But do we need to consider new sources of revenue in order to significantly reduce the deficit? The pain of additional taxes should be balanced against the benefits of reducing the budget gap.

There are, then, various measures that *could* be taken. One solution, which is appealing on the basis of fairness as well as simple arithmetic, is to close that gap by slowing the growth of expenditures for defense *and* entitlement programs, while also increasing taxes somewhat. Each of these measures will impose sacrifices. It is important to find a solution that spreads those sacrifices more or less equally across the board, so that no group feels that the budget is being balanced mainly at its expense. The burden of reducing the deficit will be easier to bear if it is shared.

Because these are hard choices that will come at some cost to many Americans, elected leaders are loathe to address them — especially in an election year when there is a temptation for candidates for office to stress what they will offer, not what will be demanded of us as citizens and taxpayers. But it is essential that we recognize that there is a $200 billion gap between what the government spends and what it takes in. If we intend to close that gap, it remains for us as citizens to confront the problem realistically and to recognize our responsibility for what must be a concerted effort.

"The Federal budget is now out of control. It is primed to generate immense deficits, year after year for decades ahead, deficits far larger than any in our history."

FOR FURTHER READING

For anyone interested in taking a close look at government spending, the place to start is with a copy of the *Budget of the United States Government*, which is published annually and available from the government printing office.

The Congressional Budget Office publishes several analyses of the budget each year. One recent volume that is particularly pertinent is *Reducing the Deficit: Spending and Revenue Options — Fiscal Year 1984*.

Three useful overviews on the budget process are *Setting National Priorities: The 1984 Budget* (Washington, D.C.: The Brookings Institution, 1983); *Guide to the Federal Budget: Fiscal Year 1984 Edition*, by Stanley Collander (Washington, D.C.: Urban Institute Press, 1983); and *Strengthening the Federal Budget Process* (Washington, D.C.: Committee for Economic Development, 1983). For a brief analysis of why federal spending outpaces revenue see, "The Built-In Deficit," a *Business Week* Special Report (August 16, 1982). Milton Friedman focuses on the political factors behind the problem, and outlines the argument for a Balanced Budget Amendment in "Less Red Ink", *The Atlantic Monthly*, (February, 1983).

For a lively discussion of the difficulties in controlling Pentagon spending, see *Time* magazine cover story, "The Winds of Reform," March 7, 1983. And for an analysis of the way rising benefit payments contribute to the deficit problem see "No More Free Lunch for the Middle Class," by Peter G. Peterson (*New York Times Magazine*, February 17, 1982) and "Entitlements," by James Fallows, *The Atlantic Monthly* (November, 1982).

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NATIONAL ISSUES FORUM: RELATED MATERIALS

The following materials may be ordered for use with the 1983 National Issues Forum. Please specify quantities for each item in the space provided, fill in complete mailing address, and enclose check payable to: Domestic Policy Association. Orders must be paid in advance or billed to Visa or MasterCard.

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2. THE DEFICIT AND THE FEDERAL BUDGET REPORT

Please answer the questions on both sides of this report only *after* you have attended the discussion or read the booklet. Answer them without reference to your earlier answers. Then hand in both reports to the forum moderator, or mail it in to the Domestic Policy Association in the attached prepaid envelope. (In case no envelope is enclosed, you can send these pages to the Domestic Policy Association at 5335 Far Hills Avenue, Dayton, Ohio 45429.)

Check the appropriate box:

1. Do you believe the federal budget should be balanced every year?

   ☐ Yes
   ☐ No
   ☐ Not sure/Don't know

2. Generally speaking, would you say that today's level of government spending for our country's national defense is:

   ☐ Much too high
   ☐ Somewhat too high
   ☐ About right
   ☐ Somewhat too low
   ☐ Much too low
   ☐ Not sure/Don't know

3. In general, would you say that today's level of government spending for social programs such as Social Security and health care for the poor and elderly is:

   ☐ Much too high
   ☐ Somewhat too high
   ☐ About right
   ☐ Somewhat too low
   ☐ Much too low
   ☐ Not sure/Don't know

4. What about today's level of federal taxation? In general, and taking into consideration all the things the government does, would you say the federal taxes you pay are:

   ☐ Much too high
   ☐ Somewhat too high
   ☐ About right
   ☐ Somewhat too low
   ☐ Much too low
   ☐ Not sure/Don't know

5. Some people say that every large organization wastes a certain amount of money simply because of its size, and that not every dollar lost because of waste and fraud can be realistically recovered. How much of every dollar spent by the federal government could be recovered by better management practices?

   ☐ Less than 5 cents of each dollar the government spends
   ☐ Between 5 and 10 cents
   ☐ Between 10 and 15 cents
   ☐ Between 15 and 20 cents
   ☐ More than 20 cents of each dollar the government spends
   ☐ Not sure/Don't know

6. Some people say that because of unfair tax loopholes, the government does not collect a lot of tax money it otherwise should. How much would you estimate federal tax revenues would increase if all unfair tax loopholes were immediately closed? Would you say federal tax revenue would increase by:

   ☐ Less than 10 percent
   ☐ 10 to 20 percent
   ☐ 20 to 30 percent
   ☐ 30 to 40 percent
   ☐ More than 40 percent
   ☐ Not sure/Don't know

7. Some people say we could go a long way toward balancing the federal budget by eliminating waste and fraud in government and by closing tax loopholes. Others say that this represents wishful thinking, as Presidents and Congressmen from both parties have tried to take these steps for years with little success. How do you feel? Could we realistically go a long way toward balancing the budget by eliminating waste and fraud, and by closing tax loopholes, or does this in fact represent wishful thinking?

   ☐ Yes, it's realistic to think that these steps could go a long way toward balancing the budget
   ☐ No, this view represents wishful thinking
   ☐ Not sure/Don't know

8. Some people say that if we want to reduce the federal deficit, the only realistic choices we have are to cut spending for social programs, cut spending for national defense, raise federal taxes, or some combination of these three. In general, do you agree that these are our only real choices?

   ☐ Agree, those three options are our only real choices
   ☐ Disagree, there are other options besides those three
   ☐ Not sure/Don't know

II For each of the following statements indicate whether you agree or disagree:

	Agree	Disagree	Not Sure
9. If we limited government help to those who truly need it and cut out payments to those who don't, the budget would be balanced.	☐	☐	☐
10. The budget for national defense represents about two-thirds of total federal spending.	☐	☐	☐
11. If we were to balance the budget solely by raising income taxes, taxes for the typical American family would have to increase by more than $2,000 per year.	☐	☐	☐
12. A major cause of our current deficit is a President and Congress who cut taxes at a time when the budget was already in the red.	☐	☐	☐
13. The budget could be balanced by eliminating cost overruns, waste and unnecessary programs from the defense department budget.	☐	☐	☐
14. A major cause of our current deficit is unrealistic thinking on the part of the American people: we simply want more from the government than we're willing to pay for.	☐	☐	☐
15. A major cause of our deficit is politicians who cater to special interests and pass spending bills with little thought about where the money to pay them will come from.	☐	☐	☐
16. Our deficit now is so large that even if we *eliminated* the entire Social Security program, the federal budget would still not be balanced.	☐	☐	☐

III Check the appropriate box:

To reduce the federal deficit, I personally would be willing to:	Yes	No	Not Sure
17. Pay more income taxes	☐	☐	☐
18. Give up the tax exemption on home mortgage interest payments	☐	☐	☐
19. Spend less federal money for education	☐	☐	☐
20. Cut military spending in half	☐	☐	☐
21. Slow the rise in spending for health care for the poor and elderly	☐	☐	☐
22. Triple the corporate income tax	☐	☐	☐
23. Let interest rates rise to much higher levels	☐	☐	☐
24. Let unemployment rise sharply	☐	☐	☐
25. Spend less federal money to protect the environment	☐	☐	☐

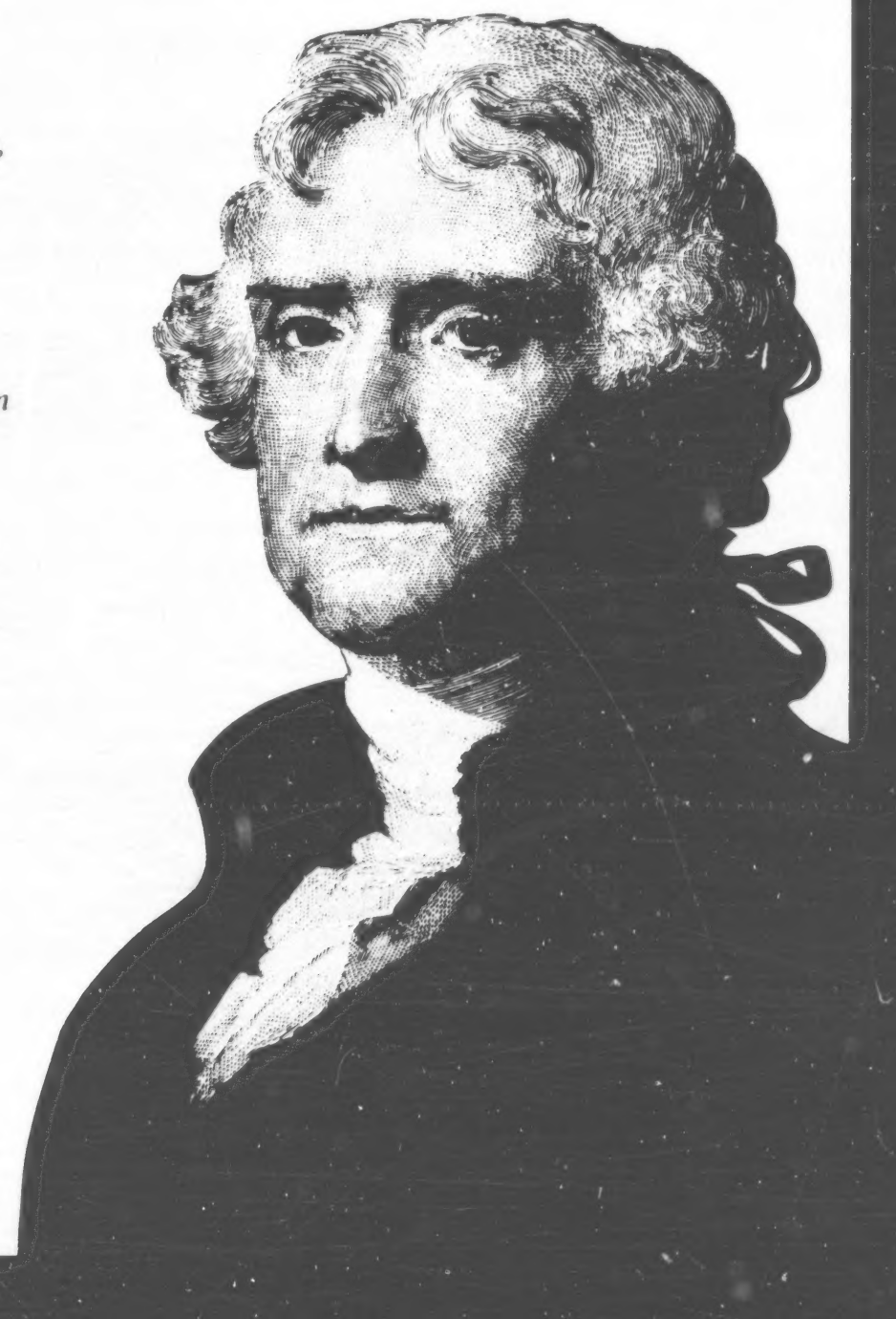
IV For each of the following, indicate whether you agree or disagree:

I would rather live with even a very large budget deficit than:

	Agree	Disagree	Not Sure
26. Cut proposed spending for national defense	☐	☐	☐
27. Cut proposed spending for social programs such as Social Security and health care for the poor and elderly	☐	☐	☐
28. Raise income taxes on people like myself	☐	☐	☐
29. Raise the corporate income tax	☐	☐	☐

"I know of no safe depository of the ultimate powers of society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it away from them, but to inform their discretion by education."

Th Jefferson



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